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***Armenian, Azerbaijani Fiscal Status Analyzed**

954F2796A Moscow FINANSOVYYE IZVESTIYA in Russian 11 Jul 95 No 48, p 3

[Overview prepared by Igor Doronin, associate of the MMVB for market conditions, under the rubric "Soft Currencies": "Armenia and Azerbaijan Acknowledge the Need for Fiscal Stabilization"]

[FBIS Translated Text]

Armenia

The national currency of Armenia, the dram, was introduced into circulation in November 1993. At the time it was introduced, the exchange rate was 14.7 drams to the dollar. In January 1995, it was 405 drams to the dollar. The dram's official exchange rate in relation to the dollar and the Russian ruble [R] is established at the Yerevan Interbank Currency Exchange. The first currency auction was held on 14 January 1994. The National Bank of Armenia regulates the establishment of the exchange rate.

Since January 1994, 50 percent of an enterprise's hard currency receipts from exports must be transferred to the stabilization fund at the official exchange rate. Because the official currency exchange rate is much too high, evasion of official sales of hard currency receipts from exports has become common.

A multitude of currency exchange rates have come into existence in the country. Commercial banks set their own rates, which differ substantially from the official rate. The turnover on the black currency market in 1994 was five times greater than official turnover.

Throughout 1994, the Armenian dram was subjected to drastic devaluation. Prices rose by a factor of 18.6 during the year.

The start of 1994 marked a major turn toward stabilization in Armenia's fiscal and monetary-credit policy. The budget deficit for 1995 is set at 12 percent of GDP [gross domestic product] (24 percent of GDP in 1994). It must be covered using noninflationary sources, including loans from international organizations and bilateral credits. The volume of foreign aid in 1995 is estimated at 260 million dollars.

In its currency policy, the Bank of Armenia intends to be guided by Western currencies. According to a Bank of Armenia representative, "The Russian ruble is something which we must fight and which must be ousted from domestic monetary turnover."

In 1995, the rate of inflation dropped after fiscal and monetary-credit policy was tightened up. In January, the rate was 3.7 percent, in February—0.7 percent, and in March—1.3 percent. In the first quarter of 1995, the exchange rate of the dram in relation to the dollar dropped by only 2 percent. Growth in production during this same period was 15 percent. Stronger confidence in the dram and stabilization of its exchange rate on Armenia's currency market helped reduce the scale of mandatory sales of hard currency receipts from exports from 50 percent to 30 percent since 1 February 1995.

Armenia's currency circulation is characterized by a high saturation with dollars. According to some estimates, total dollar capital is three times greater than the volume of money supply in the national currency.

Armenia is one of the first Transcaucasian republics to begin implementing a privatization program; it began on 1 March 1995. Slightly more than half the state objects are planned to be privatized before the end of 1995. Privatization will be conducted through sale at auction for privatization certificates and national currency. Each participant in the auction has the right to acquire no more than 10 percent of the stock of one enterprise up for sale. In the coming months, about 1,000 enterprises which account for 70 percent of all of Armenia's industrial production will become open-type joint stock companies.

The government of Armenia intends to continue the policy of strict fiscal stabilization until the end of the year. In the second half of 1995, it is planned to stop granting subsidies and supplementary payments to enterprises, preserve the refinancing rate at a positive figure, and keep the growth in money supply under strict control.

Azerbaijan

The Azerbaijani manat is the national currency of Azerbaijan. It was put into circulation on 1 January 1994. The official exchange rate was set at R10 Russian to the manat. The exchange rate in relation to freely convertible currencies was determined using the cross-rate of the Russian ruble to the freely convertible currencies based on the results of trading sessions at MMVB [Moscow Interbank Currency Exchange]. Accordingly, at the moment it was issued, the official exchange rate in relation to the dollar was 118 manats to the dollar. The official exchange rate remained unchanged until June 1994. At that time the exchange rate of the manat on the black market was falling steadily, and by the middle of 1994 it was equal to about 1,000 manats to the dollar.

As a result of the policy of the manat's fixed official exchange rate, the activity of the Baku Currency Exchange

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was paralyzed. The requirement to sell 60-70 percent of the hard currency receipts from exports to the republic's hard currency fund and 25 percent to the reserve currency fund at the official rate was not being satisfied. The concealment of hard currency receipts from exports, the escape of hard currency from the country, and operations on the black hard currency market became widespread.

In June 1994, the National Bank of Azerbaijan dropped the manat's official exchange rate, bringing it closer to the market rate. The requirement regarding the mandatory sale of hard currency receipts from exports was changed. Sixty-five percent of the enterprises were required to sell to the republic's unified hard currency fund and 35 percent—to the Baku Interbank Currency Exchange. In the middle of July, the Baku Interbank Currency Exchange resumed operation. The Law on Hard Currency Regulation was passed in Azerbaijan at the end of October.

Throughout 1994, the Azerbaijani manat underwent drastic devaluation. The rise in prices during the year came to 2,831 percent. A stabilization program was developed in late 1994. It envisions reducing the state budget deficit, which should not exceed 4.7 percent of GDP in 1995. Most of the deficit will be covered through bonuses of foreign oil companies on oil contracts and credits of donor countries and international financial organizations.

In 1995, the rate of inflation is to be reduced from 25-27 percent a month at the start of the year to 2 percent a month at the end of the year, prices are to be completely liberalized, domestic and foreign trade prices for energy media are to be equalized, export and import privileges for enterprises are to be abolished, the distribution of centralized credit resources on a competitive basis is to begin, privatization is to begin, and so on.

The first months of the policy of fiscal stabilization in 1995 have normalized the operation of Azerbaijan's currency market. The Baku Interbank Currency Exchange switched to daily trading sessions starting in April 1995. The exchange rate of the manat has been stabilized. Azerbaijan's hard currency reserves at the end of the first quarter of 1995 came to 70 million dollars, which is considered adequate to maintain the stability of the manat. However, it is still too early to speak of the complete liberalization of the currency market. A margin of 5 percent has been set between the exchange rate at the exchange and the exchange rate of the dollar at exchange offices.

Azerbaijan managed to achieve fiscal stabilization in the first months of 1995 by significantly reducing industrial production. In the first quarter, it declined by 28 percent as compared to the same period last year. The industry for producing petroleum extracting equipment which used to be delivered to Russia is in extremely grave condition. At the present time, Azerbaijan does not have economic agreements with any CIS state.

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***Obstacles to Better Relations With South Korea**

954Q0246A Moscow IZVESTIYA in Russian 7 Jul 95 p 5

[Article by Leonid Mlechin of IZVESTIYA: "No Brotherhood in the North, No Great Love in the South—*Ignorance of the Korean Mentality is Impeding Moscow in Setting Up Relations with Seoul*"]

[FBIS Translated Text] *South Korea appears to us to be a completely ideal state that we hold up as an example to ourselves and others. Why that has happened is understandable. South Korea was the complete opposite of North Korea. Everything in the North is bad, so everything is the South is therefore good. No one has any particular quarrel with the former, but the latter is blatantly doubtful.*

Our notions of the country are formed under the influence of South Korea goods, which are pushing the Japanese goods in our market hard, because they are cheaper even though they are a little worse. Approximately 140,000 people a year travel to South Korea from Russia alone, of whom barely 10,000 are not there on commercial business. The "shuttle" compares South Korea with China, and the comparison is not in favor of the latter.

Thus is formed an idyllic image of the imagined country. But Russia, at the everyday level and in business, still preserves a contemptuous attitude toward that same Korea, and toward Asia as a whole. That attitude was formed back under Nicholas II, when the Japanese were called "macaques." If we had such a haughty attitude toward even the Japanese, what is there to say about our attitude toward the Koreans!

Four visits by highly placed Moscow politicians to Seoul were canceled recently as a result. The arrival in Korea of the then Vice-Premier Aleksandr Shokhin was canceled virtually on the day of his arrival in Korea. When the telegram came that there was no point in waiting for the Vice-Premier in vain, our diplomats in Seoul went off to apologize—you do not communicate such unpleasant news by telephone. They returned to the embassy, and there was a new telegram—another Vice-Premier, Yuriy Yarov, was flying in instead of the first. Cheering up, they went to report on Yarov. Only when they got back to the embassy, there was a new telegram—nobody was coming...

Moscow Mayor Yuriy Luzhkov, Chief of the General Staff General Mikhail Kolesnikov, and Minister of Science and Technical Policy Boris Saltykov also did not come. All of this testifies to the frivolous attitude toward South Korea that the Koreans perceive as a sign of disrespect.

Many pleasant and heart-warming words were uttered at the official level, but South Korea in fact has an attitude of greater skepticism toward Russia.

First, Seoul was starting up a friendship with a superpower, the Soviet Union, while poorly understanding the internal situation and the problems of our country. South Korea was extremely disappointed when they saw that Russia is poor, that it is beset by a host of problems. The disarray in the country was something shameful for the Koreans, raised on Confucianism.

Second, Russia is unable to have an influence on North Korea, and does not play does not play any significant role in the Far East.

Third, Russia represents no economic interest for the South Koreans. China established diplomatic relations with Seoul two years after Moscow, but Korean-Chinese trade turnover is four times greater. Koreans willingly invest money in China, but there is no Korean capital investment in Russia.

Seoul also did not conduct itself in a partner-like fashion in the episode of the nuclear reactors for North Korea. Moscow was cut off from the negotiations, even though they considered it necessary to consult with China. Another example—South Korean diplomats, at one time trying to persuade Moscow to establish diplomatic relations, said, "A building for an embassy and a plot of land are waiting for you in Seoul." That was the legacy of the prior Russian mission.

But when Gorbachev recognized South Korea and our diplomats finally arrived in Seoul, it was calmly explained to them that neither the building nor the land belonged to them anymore. The current value of the land is no less than 100 million dollars, for which they gave us minute compensation and another plot to put up a new building. The embassy of South Korea in Moscow, however, now wants to get a new plot of land in exchange. President Yeltsin and Mayor Luzhkov, incidentally, promised to give them a plot a year ago. They have not yet been able to fulfill their promise...

Russia owes South Korea half a billion dollars. That will be almost two billion dollars with interest. Moscow has proposed giving over half of the debt in raw materials, and half in "special matériel"—the shameful name they now give to arms deliveries. They agreed to give back the first 400 million plus interest after long negotiations, plus interest for the deferment of payment (approximately 32 million dollars). A protocol has been signed.

But when they were preparing the decree of the Russian government, some official decided to economize—the obligation to pay interest on the deferment was dropped

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from the document. Nothing came of this attempt to dupe the Koreans. They were incredibly angered, and a previously secondary issue became a fundamental one. The whole process of debt repayment, which could prove very advantageous to Russia, was threatened.

Russian weapons have penetrated into one of the most closed markets; the South Korean army has only American weapons and its own. The Americans do not let Seoul buy the weapons of others, but they could not block Korea from obtaining its debt from Russia. The weapons trade is such that the more you sell, the more they buy.

In the words of our military, the eyes of the Korean generals lit up when they saw the Russian military hardware, effective and cheap. The Koreans are gladly buying tanks, infantry fighting vehicles, S-300 antimissile systems, submarines and aircraft.

Russian policy in relation to South Korea, on the other hand, does not have enough sensible toughness and firmness. Russian diplomats feel that the Koreans are the most unyielding people in all of Southeast Asia, and that one cannot give any slack or make unilateral negotiations in negotiations with them. But a naive love of Seoul predominates at the highest levels in Moscow.

The effective term of the treaty with North Korea is expiring. We must notify Pyongyang in September of either our desire to end the treaty, or to propose that the text be altered. If such notification does not come, the treaty is automatically extended for another five years. The treaty, of course, is hopelessly out of date. But extending it or not is an internal matter for Russia. South Korea has nonetheless begun unprecedented pressure on Russia, demanding that the treaty not be extended; so, Seoul feels that it has the right to dictate something to Moscow?

It must still be kept in mind that South Korea is not a kingdom of democracy, despite all of the changes of recent years. The initially announced law of national security has lamentably not been repealed to this day. Despite the fact that South and North Korea are negotiating with each other, the law still prohibits not only trips to the PDRK, but even approving words about North Korea—the punishment is five years in prison. The law also punishes for failure to inform with prison, and encourages informing with money.

It must be said that the United States, with all of its good relations with Seoul, is constantly saying that this law should be abolished. Russia has never expressed itself anywhere with regard to the human-rights situation in South Korea. Such silence, aside from everything else, keeps the question of violations in North Korea from coming up. Even one exception to the general principle, after all, would evoke doubts about whether Russia is really concerned about the human-rights situation, or is just using the issue as a political argument to reproach regimes that do not please it.

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Political Issues

Senate, Duma in Election Law Negotiations

954F2831A Moscow MOSKOVSKIYE NOVOSTI in Russian 18-25 Jun 95 No 42, p 9

[Article by Yelena Mizulina, deputy chairman of the Federation Council Committee on Constitutional Legislation: "The Senate and the Duma: The Haggling Is Not Over"]

[FBIS Translated Text] The Federation Council has approved the law on election of deputies to the State Duma. If the president signs this law, it can be considered that Russia has taken another step on the path to a rule-of-law state.

Those who tried by fair means or foul to impede the adoption of the law said: "There is no reason to hurry. So, the elections will not be in December, but in January. It's not important." It is indeed important. Since the time that democratic elections have been held in Russia, not once has the renewal of the legislative organs occurred "in a planned way." Both the Union and Russian Congresses of People's Deputies were dissolved early. They were dissolved not for constitutional but political reasons, that is, on the basis of arbitrary rule. Civilized electoral practice is just taking shape in our country. Today it is necessary to lay down one of its basic principles: No one has the right to arbitrarily change the constitutional terms of the elections.

The elections can be early (if the dissolution or self-dissolution of parliament occurs in accordance with the Constitution). But they can never be postponed. If the impending elections occur on time, we will be establishing an important precedent that next time will preclude even raising the question of "prolonging plenary powers." It will prevent antilegal arguments of the type "parliament has barely started to work, and it has just found points of contact with the president," etc., from even being raised. If the parliamentarians and the president are that good, they will enter the elections, and the citizens will vote for them once again. But the people must not be deprived of the right to power, which it can realize only in the process of elections.

It was exactly the right of the people to power that was defended by those that came out for the timely adoption of electoral laws. But those who tried "to improve" the law on elections to the State Duma basically were looking after their own right to power. Talk about the fact that the law is "unfinished" is pure craftiness. From a legal standpoint, it absolutely corresponds to stipulated standards, and from a political standpoint it represents the maximum possible compromise. Whether the rights of the regions are adequately protected and whether the rights of parties are not encroached upon too much could be argued further. But after a year of work on the law and six (!) interchamber conciliation commissions it is perfectly obvious: All possibilities for a further rapprochement of the positions of the disputants have been exhausted.

However, my senate colleagues were not worried about the rapprochement of positions when on the eve of the adoption of the law they once again rejected it. The main argument was expressed for the first time with utmost frankness: Let the Duma adopt a law on the formation of the Federation Council that pleases us, and we will vote for any law on Duma elections. But the point is that a law on the Federation Council that satisfies the regional elites makes the existence of the State Duma and the federal parliament senseless as a whole.

The Federation Council, which was formed from the chiefs of regional legislative and executive authorities, and which works on a permanent basis, is undoubtedly advantageous to the president also, inasmuch as it will consist of people who are directly or indirectly dependent on the chief of state. The opinion is also expressed that such a Federation Council will "bring Russia together." The last two claims are not indisputable.

The most dangerous both for the president and for Russia as a whole is a Federation Council that is formed precisely from elected and not from appointed heads of administration. In order to understand the measure of danger, it is enough to watch how the presidents and governors elected by the populations of their republics and oblasts who sit in the Federation Council behave. They often use their "independent" status not in state interests, but for strengthening their own image of "spokesmen for the interests of the region." It is no secret to anyone that these senators at times "exchange" decisions in which the president or the government are interested for benefits for their own territories. Of course, to the detriment of other regions. It is hardly likely that Russia needs a senate that engages principally in lobbying for narrow regional interests. The president himself sooner or later will become hostage to these feuds of the principalities.

As for the independence of the legislative authority, it can be given up for lost if half of one of the parliamentary chambers consists of leaders of the executive authority. It will not matter whether they will be appointed or elected. These people have a specific "legislative mindset," for they are the ones who answer for the fulfillment of laws. It is no accident that one of the most frequently heard arguments during a discussion of laws in the Federation Council is that "this law is impracticable; we must adopt realistic laws." For the ex-

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ecutor, a realistic law is one that makes his own freedom infinite, but cuts the rights of the citizen to a minimum. However, the task of representative authority is not to ease the lot of bureaucrats but to defend the interests of citizens. If the citizens see that their rights are being reliably protected at the very top, they have no need to go to rallies and demonstrations. Only then is representative authority a factor of social stability. Otherwise, it is a threat to stability.

Shakhray Constitutional Court Statement

954E1176A Moscow ROSSIYSKIYE VESTI in Russian 12, 13 Jul 95

[Speech of Deputy Premier Sergey Shakhray to the Constitutional Court; date not given; published in two installments: "The Actions of the President and the Government of the Russian Federation Correspond to the Russian Constitution"; passages within slantlines published in boldface]

[FBIS Translated Text]

[12 Jul p 2]

Esteemed Chairman!

Esteemed Justices of the Constitutional Court!

Apropos the matter submitted for your consideration, permit me to set forth the position of our side and to substantiate the constitutionality of the acts of the president and the Government of the Russian Federation adopted for protection of the constitutional system, the territorial integrity of Russia, and the security of its citizens and the state as a whole.

We shall set forth the facts and adduce proof of how government by the people, the separation of powers, and the unity of the economic space of the country and its integrity and sovereignty had been eliminated on part of the territory of the Russian Federation. The constitution and laws of the Russian Federation were inoperative there, and more than 1 million persons came to be, in fact, deprived of Russian citizenship. Not only were mass violations of human rights and liberties perpetrated but the official systems of their realization and protection, including social security, health care, education, and the judicial and law enforcement systems, were eliminated.

You will obtain confirmation that all the fundamentals of the constitutional system enshrined in Chapter One of the Constitution of Russia were ravaged in Chechnya.

We will recall the actions of the president and the Government of Russia aimed at a restoration of the constitutional system and show the constitutionality of the decisions they adopted. Under the conditions that had taken shape in the Chechen Republic the president and the government were not only **entitled but duty bound** to use all means available to the state, the armed forces included.

Having set forth our arguments and presented the requisite documents, we will ask the Constitutional Court to find the disputed acts to conform to the constitution and thereby, in precise conformity with Article 3 of the law "On the Constitutional Court," we will ask you, esteemed justices, to **defend** the fundamentals of the constitutional system, the basic rights and liberties of man and citizen, and the supremacy and direct operation of the Constitution of the Russian Federation demolished in Chechnya.

Our legal analysis begins with Chapter One of the Constitution of Russia inasmuch as, in accordance with Article 16, **it is the provisions** of this chapter that are of priority importance and are of **direct operation.**

The very foundation of the constitutional system of the Russian Federation is **government by the people.**

The exponent of sovereignty and the sole source of power in the Russian Federation are the people. **The highest direct expression of the power of the people are referendums and free elections.**

"No one may appropriate power in the Russian Federation," *Article 3 of the Constitution of Russia proclaims.*

The reference point of the Chechen tragedy is the seizure of power on part of the territory of the Federation.

Let us recall.

The First Chechen People's Congress (subsequently renamed All- Nation Congress of the Chechen People—OKChN), which proclaimed itself the "supreme forum of people's power of the Chechen Republic" arbitrarily distinguished within the framework of the Chechen-Ingush ASSR [Autonomous Soviet Socialist Republic] which existed at that time, was held in November 1990. Dudayev came to head the Congress at the start of 1991.

From the very outset the activity of the OKChN was aimed at tearing away Chechen land (Nokhchi Cho), as it was called.

As of the summer of 1991 the Joint Congress embarked on practical actions for the seizure of power. On 28-29 August its armed detachments blocked the central streets and squares of Groznyy and seized by force the buildings of the then republic Council of Ministers, the premises of the radio and television center, and the airport.

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On 1 September the OKChN Executive Committee announced the deposition of the Supreme Soviet of the Chechen-Ingush Republic, and on 6 September armed Dudayevites stormed the premises, where a sitting was under way. The deputies who attempted to resist were beaten up, and Vitaliy Kutsenko, chairman of the Groznyy City Soviet, was killed.

An assessment of the political situation that had come about at that time in Chechen-Ingushetia was made in a special decree of the RSFSR Supreme Soviet, which observed **(I quote):**

The escalation of violent actions on the part of the illegal armed elements continues. State institutions and also officials are being seized. Certain public elements are appropriating the powers of the authorities and perpetrating anticonstitutional actions. The life, rights, and property of citizens of the Chechen-Ingush Republic are in ever increasing danger."

So, we establish:

The legitimately elected authorities were eliminated, and power on part of the territory of the Russian Federation was appropriated (more precisely, seized with the use of armed force) by a grouping headed by General Dudayev.

This was followed by an attempt to **formally legalize** the power that had been seized.

On 27 October 1991 the OKChN Executive Committee organized so-called "elections."

Not only were they held on arbitrarily drawn territory, which constituted only part of the Chechen-Ingush Republic. The population of **six** out of **14** rayons of Chechen-Ingushetia, masses of which did not share the aims of the OKChN, was simply pushed aside from the elections. But a majority of the population of the Chechen Republic did not take part even in these elections.

The Third Congress of the Ingush People, which was held at that time and which supported the indivisibility of Chechen-Ingushetia within Russia, issued a protest against this decision.

The elections were held within just two weeks, which was a record time, but patently insufficient for the normal organization of the election campaign, and under conditions of virtual martial law.

Such elections could not, naturally, have been deemed legitimate in the Russian Federation.

The well-known decree of the Fifth Congress of People's Deputies of the Russian Federation, regardless of the documents and the arguments that were employed in its preparation, is **operative.**

Perhaps other forms of government by the people had better "luck"? By no means.

In 1993 Dudayev thwarted a referendum on the political arrangement of the Chechen Republic which had been scheduled by his "parliament." For this purpose Dudayev's special units broke up a public meeting of the opposition and stormed the police department, which had taken the side of the deputies. More than 20 persons died.

The Dudayev leadership refused to hold elections to the organs of representative power of the Russian Federation on 12 December 1993 and prevented the participation in the ballot of Russian citizen- inhabitants of the Chechen Republic.

Never again will Russia conduct either its elections or its referendums on the territory of the Chechen state," the so-called Ministry of Foreign Affairs of Chechnya declared.

We draw our first conclusion, esteemed justices.

The Dudayev regime liquidated completely **government by the people in Chechnya. And did so by armed force.**

[13 Jul pp 2-4]

Sovereignty.

A most important principle of the constitutional system are the provisions of Chapter 1 of the Constitution **on the extension of the sovereignty of the Russian Federation throughout its territory,** *on the obligation of the Russian state to ensure* the **integrity and sanctity** *of its territory, and on* **the supremacy of the Constitution of Russia and federal laws throughout the country** *(Article 4 of Chapter 1 "Fundamentals of the Constitutional System").*

We are today to our profoundest regret forced to set forth before the Constitutional Court of Russia facts and circumstances testifying to the **demolition** *on part of the territory of our country of these fundamentals of the constitutional system.*

Let us return to the events of the fall of 1991.

It was at that time that Dudayev's edict and the decision of Dudayev's parliament proclaimed the "state sovereignty" of Chechnya.

The arbitrary borders of the republic were declared state borders. A special border and customs service was

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formed under the auspices of the Chechen minister for war.

On 12 March 1992 Dudayev's constitution proclaimed in its preamble the Chechen Republic-Ichkeria an independent sovereign state.

This document plainly asserted that Chechnya is a *"sovereign....state....(possessing) the supreme right in respect to its territory and national resources; independently (determining) its domestic and foreign policy; (adopting) a constitution and laws with supremacy on its territory."*

The so-called Chechen Ministry of Foreign Affairs announced in its statement of 14 December 1993 that the Constitution of the Russian Federation would not operate on the territory of the Chechen Republic on account of it being the constitution of a **neighbor** state.

The actual fact of the Chechen Republic being a part of Russia has been denied throughout the existence of Dudayev's regime.

Thus the adduced facts testify that on part of the territory of the country the Dudayev regime made an attempt at secession from the Russian Federation. The territorial integrity of Russia and the supremacy of its constitution and laws were, **in fact,** *violated. The sovereignty of the Russian Federation was limited.*

No less consistent and methodical was the demolition in Chechnya of the unity of the system of state power, on which, according to Article 5 of the Chapter "Fundamentals of the Constitutional System," **the arrangement of the Russian Federation is based.**

Immediately following the rigged presidential and parliamentary elections, the Dudayev regime embarked on the consistent destruction of the institutions of federal state power on the territory of Chechnya.

In 1991 even the first decisions of the Dudayev parliament created its own *Ministry of War, procuracy, and Ministry of Internal Affairs;* and

switched to local jurisdiction the civil defense system, the communications branch, and the police authorities.

The Committee for Operational Management of the National Economy and its own National Bank were created in place of the Council of Ministers of the Chechen-Ingush SSR, *and the State Committee for the Administration of State Property and Privatization was abolished.*

On 8 November 1991 Dudayev's armed elements put an end to the activity of the *Committee of State Security of the Chechen-Ingush ASSR* and captured its building by force.

The federal structures of the **Ministry of Internal Affairs** ceased their existence on the territory of Chechnya also.

From the fall of 1991 through June 1992 military property and military facilities of the *armed forces* on the territory of the republic were forcibly seized and transferred to the control of Dudayev's illegal elements. No one should be deceived by the assertion that the surrender or transfer of weapons was voluntary. By the official formalization of the seizure of these weapons, it was attempted to save at least some of the military property. We would not want to dwell on this subject—it goes beyond the bounds of the investigation of today's proceedings.

By 10 June 1992 the structures of the *Ministry of Defense* of Russia on the territory of Chechnya had been eliminated.

The illegal procuracy of Chechnya operated wholly independently and was not a part of the system of the federal arms of the procuracy and maintained no contact with them.

The arms of the procuracy of the Russian Federation were deprived of an opportunity to influence the state of affairs and to ensure the execution of federal laws on the territory of Chechnya.

Following a series of conversions, Dudayev's *Ministry of Justice* was in 1994 merged *with the procuracy* of Chechnya, and its leader was called "minister of justice—prosecutor general." At the time of the last reorganization *the courts, the arms of the procuracy, and the institution of judicial expert opinion* were brought under the *Ministry of Justice.*

The State Tax Inspectorate for the Chechen-Ingush ASSR was eliminated by a decision of the Dudayev parliament.

Customs authorities on the territory of Chechnya were absent altogether, and the territory of the republic was turned, **in fact,** into a veritable **criminal "free economic zone."**

The Chechen leadership brought the process of the **severance** of ties to the federal authorities to its logical conclusion.

Even when, in the spring of 1992, many people died, almost 900 various buildings and installations, approximately 20 km of roads, and 50 km of power lines were destroyed, and more than 500 families were left without shelter on account of the landslide occurrences, the Chechen leadership rejected the offer of the Government of the Russian Federation to immediately supply 1,000 rapid-assembly homes to the disaster zone.

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Thus the actions of the Dudayev regime brought about the premeditated and complete demolition of the federal system of state power and administration on the territory of the Chechen Republic.

All legitimate representative, executive, and judicial federal and republic authorities on the territory of Chechnya were demolished.

The list of violated constitutional provisions is enormous. It is a rare lawyer who could make it as far as the middle of the list.

The enumerated actions directly violated fundamental articles of the then Constitution of the RSFSR, which operated until December 1993—Articles 3, 4, 72, 78, 79, 81, 85, 86.... Nor will I, for that matter, make it to the end of this list in a verbal exposition.

This is our third dismal conclusion.

But we are forced to continue the list of violated constitutional principles in Chechnya.

According to Article 5 of the Chapter "Fundamentals of the Constitutional System," the federative arrangement of Russia is based **"on the delineation of terms of reference and authority between the organs of state power of the Russian Federation and the organs of state power of the components of the Russian Federation and the equality and self- determination of the peoples in the Russian Federation."**

Article 11 of that same chapter establishes that **the terms of reference and authority are delineated by the Constitution of the Russian Federation and the Federal and other treaties on the delineation of terms of reference and authority.**

We have already spoken of the actions of the Dudayev regime in respect to the Constitution of Russia.

Somewhat later we will show that it was simply never a question of a delineation of authority based on a treaty.

The appropriation of terms of reference of the Russian Federation and the "seizure" of the authority of the federal organs of state power on the territory of Chechnya, on the other hand, were undertaken rapidly and drastically.

Specifically, ascribed to the exclusive jurisdiction and authority of the Dudayev parliament were:

the determination of foreign policy and the ratification and denunciation of international treaties;

the elaboration of the principal measures in the sphere of defense and state security;

the announcement of general or partial mobilization; imposition of a state of emergency; a declaration of war; the adoption of decisions on the use of army contingents in a state of emergency situation and also in the discharge of international commitments;

the promulgation of acts of amnesty;

the establishment of taxes and compulsory payments and also questions of judicial administration, the activity of the procuracy, the bar association, and the notariate and the activity of the law enforcement authorities and the security authorities.

Having broken up his parliament, Dudayev began as of the summer of 1993 to adopt decisions on the enumerated issues individually.

How did the Dudayev regime dispose of the seized authority? It built schools and hospitals, perhaps? Supported retirees and the handicapped?

The three-year policy of the Dudayev regime led to widespread havoc in *the very systems of the social protection of Russian citizens* residing on the territory of Chechnya—not to individual, not even to numerous violations of the rights and liberties of citizens of the Russian Federation, but to the demolition of the systems themselves, state systems, in which these rights and liberties could be realized!

Thus decisions of the Dudayev government in 1992 eliminated the republic Ministry of Social Security, which had served more than 200,000 retirees. By the summer of 1994 the **pension support mechanism** had been liquidated completely. The disbursement of pensions and allowances was terminated throughout the Chechen Republic.

The Russian Government made a number of attempts to disburse pensions on the territory of the Chechen Republic (in 1993 and 1994), but there was virtually no success here on account of the demolition of the social security system in Chechnya.

The years of Dudayev's rule are characterized also by the mass exodus of doctors from the republic, a lack of medical equipment, and an acute shortage of prescription drugs. Starting in 1993, 1,240 of the 2,042 doctors and 3,000 of the 7,000 middle-level medical personnel have left the territory of Chechnya.

Let us reflect on these dry figures.

Owing to the collapse of the **health-care system,** not a single inhabitant of Chechnya was inoculated in the three years. In this period one out of every three inhabitants residing on the territory of the republic sustained a serious infectious disease. Dudayev's authorities concealed here the true state of affairs in this field.

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Thus in 1994 the Chechnya authorities failed to inform the World Health Organization, the Ministry of Health and Medical Industry, and the sanitary and epidemiological inspection authorities of the cholera epidemic that began in the summer on the territory of Chechnya.

The sanitary and epidemiological, environmental, mining and engineering, water, and forestry inspection authorities ceased to exist on the territory of the Chechen Republic in 1993.

The system of education in the republic was practically wound down also: Schools, except for those on the territory of the northern areas of Chechnya and a negligible proportion of the city schools, closed. Almost 90 percent of preschools and all vocational- technical schools were closed also.

In 1993 Dudayev proclaimed a policy of the "raising of warriors," which contemplated the abolition of education for girls and a three- year elementary education for boys.

By these actions the Dudayev regime completely violated Articles 2 and 7 of the Chapter "Fundamentals of the Constitutional System," which asserts as its highest value man and his rights and liberties, and their recognition, observance, and protection, the obligation of the state.

Esteemed justices!

Rights, liberties, and obligations in the Russian Federation are inseparably connected with citizenship.

The unity of the citizenship of the Russian Federation is a most important principle of the constitutional system of Russia (Article 6).

As a result of the three years of "activity" of the Dudayev regime, more than 1 million inhabitants of Chechnya in fact lost their citizenship of the Russian Federation and were deprived of practically all rights and liberties of citizens of Russia and the patronage and protection of the Russian state. The provision that a citizen of the Russian Federation may not be deprived of his citizenship was violated.

"Acquisition of our own citizenship," which was specified by the Dudayev constitution, brought the inhabitants of Chechnya nothing other than the right to become a group hostage of the regime.

The actions of the Dudayev regime in violation of Article 13 of the Constitution of Russia led to the incitement of social, national, and religious friction, as a result of which interethnic tension increased sharply and the danger of conflicts arising in national soil became real in the North Caucasus region.

From the very outset the activity of the OKChN was aimed at discrimination against non-Chechen ethnic groups on the territory of the Chechen Republic.

Thus the decisions of the first assembly of the Congress contained demands for a limitation of the influx into the republic of immigrants from outside, "except for persons of Chechen nationality," and a demand concerning the impermissibility of the appointment of "persons of non-Chechen nationality" to the posts of leaders of the republic KGB, MVD, and the procuracy.

In the Office of the President of Russia, the General Procuracy, the Commission of the State Duma for the Investigation of the Causes and Circumstances of the Chechen Crisis, and federal ministries and departments there are numerous pieces of evidence and petitions and letters of the citizens which express instances of ethnic discrimination against the Russian-speaking population of Chechnya and evidence of the futility of seeking protection from Dudayev's authorities.

We would recall merely several widely known facts. Thus the appeal of inhabitants of Sunzhenskiy Rayon's village of Assinovskaya to the president of Russia sets forth numerous cases of robberies, car-jacking, livestock rustling, and rapes and beatings of Russian and Russian-speaking citizens. In two years the Russian population of this Cossack village declined threefold (from 7,200 to 2,400 persons).

A group letter of the inhabitants of a number of communities of Naurskiy and Shelkovskiy Rayons to the president of Russia reports that in the three years all Russians had been dismissed by the local authorities from executive positions, and half the Russian population of these communities was forced under threats on the part of armed persons of Chechen nationality to leave their homes and part with their property.

The Dudayev regime's attitude toward the Russian population may be judged also by the following fact: During the deployment of a number of units of Russian troops in the zone of the Ossetian-Ingush conflict, Chechnya radio declared that all Russians living in the Chechen Republic were **hostages.**

Familiar handwriting, is it not?

As a result of the actions of the Dudayev regime to "squeeze out" the non-Chechen population, the flow of migrants from the Chechen Republic began to increase as of 1991.

In the past three or four years approximately 250,000 persons who had left the Chechen Republic have moved to various regions of Russia.

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According to data of the Federal Migration Service, more than 80 percent of refugees and involuntary immigrants from Chechnya are Russians. But there has been an outflow of the population of all other, "non-Chechen," nationalities—Armenians, Ukrainians, Tatars, Jews—from the republic.

The Dudayev regime's "anti-Russian" policy has provoked simultaneously a growth of anti-Chechen sentiments in other regions of Russia, particularly among the population of Stavropol Kray, specially following several seizures of buses containing hostages and the hijacking of helicopters to Chechnya from the Mineralnyye Vody area.

Thus the Dudayev regime had become a hotbed of instability which could at any moment have detonated the situation in the North Caucasus and it was, consequently, creating a direct threat to the security of the state and contributing to the incitement of social, racial, national, and religious strife.

Let us turn to other components of the fundamentals of the constitutional system.

Some journalist aptly called Chechnya a *"black hole."*

The actions of the Dudayev regime in the "economic sphere" fully justify this appellation.

Chechnya had become not simply a criminal "pump," transferring via itself flows of oil, weapons, narcotics, and money.

The Dudayev leadership directly violated *a most important principle of the constitutional system of the Russian Federation—it undertook in planned fashion to undermine* the **unity of the country's economic space** *(Article 8 of the Constitution of Russia), inflicting considerable damage on both the state and the citizens.*

Russian property on the territory of the Chechen Republic was "nationalized."

A decree of the Dudayev parliament "nationalized" the plants, factories, departments, associations, banks, and other properties of Russian and Union jurisdiction.

In the course of the "nationalization" of the Union and, subsequently, of Russian enterprises also they were switched to the jurisdiction of the illegal authorities of Chechnya, **and exports and barter deals involving strategic commodities, raw material, and products were put at the personal disposal of Dudayev himself.**

All types of payments to the treasury of Russia were terminated on the territory of the Chechen Republic.

The transport systems in Chechnya were destroyed.

The systematic robbery of freight and passenger trains became just about the main source of income.

Some 1,354 attacks on rolling stock for the purpose of stealing the freight were carried out on the territory of Chechnya in the period 1992-1994. Approximately 70 cases of robbery with violence against passenger trains were documented, firearms were employed here, and there were, naturally, numerous human casualties.

The traffic capacity of the main railroad which crosses the territory of Chechnya declined sharply. It is, truly, a "lifeline" because there is no other line to Dagestan and all the states of the Transcaucasus.

The Dudayev regime operated particularly actively in the financial sphere.

Here are the most characteristic examples.

At a result of *the swindles involving forged letters of advice and fictitious financial documents* not less than 4 trillion rubles have been embezzled from the state in the period from 1991 through the present.

The production of forged Russian banknotes of various denominations and U.S. dollars had been set up on the territory of Chechnya.

Chechnya took practical steps to introduce its own currency also.

A contract with the British firm Thomas de la Rue for the production of Chechen national banknotes for a sum of more than **$2 million** was concluded on 8 October 1992. Subsequently a contract was concluded with the Turkish company Komsan.

The Chechen leadership also conducted negotiations to obtain credit from the United States and certain European countries in the amount of $300 million for the construction of an enterprise for the production of its own banknotes.

The actions of the Dudayev regime signified a high degree of criminalization of the Chechen economy.

An inalienable part of the political course set by the Dudayev regime were the punitive measures against the opposition parties, grassroots organizations, and individual citizens.

Dudayev declared illegal the activity of virtually all opposition political organizations operating on the territory of Chechnya.

Material presented to the Government of Russia by the Ministry of Culture cites information on how the Dudayev regime dealt with representatives of the national intelligentsia of an opposition frame of mind.

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A most important area of the activity of the so-called Department of State Security formed on the basis of a Dudayev edict was ascertainment of the opposition, surveillance of it, and punitive measures against it.

In the struggle against the political opposition Dudayev granted his punitive arms virtually unlimited powers. For example, officers of the regime's special services were authorized to shoot to kill, and such actions entailed no responsibility here.

At the time of the breakup of his parliament and the Constitutional Court Dudayev completely banned all opposition parties and their publications. The leaders of the opposition who escaped arrest were forced to flee Groznyy, and the Chechen leadership banned them from residing on the territory of Chechnya.

There is evidence that burials of executed political adversaries of Dudayev took place at the Korpinskoye Cemetery on the outskirts of the city of Groznyy.

The Dudayev regime established the most rigid censorship.

Thus, esteemed justices, the facts show that on the territory controlled by the Dudayev regime not only were the fundamental principles of guarantees of ideological and political diversity violated (Article 13 of the Constitution of Russia) and not only were the rights and liberties of the citizens not protected (Article 2 of the Constitution of Russia) but there were mass violations of the political rights and liberties of citizens of Russia also.

Esteemed justices!

We have spent much time revealing the constitutional consequences of the political and economic activity of the Dudayev regime. We have to answer the key question—concerning Dudayev's armed elements.

It was *illegal armed elements,* converted to a considerable extent into a professional force well equipped with combat hardware, that constituted the support of the Dudayev regime. It embarked on their creation from the very first moment it acceded to power.

The backbone of Dudayev's illegal armed elements was composed of units manned by persons with experience of combat operations in Afghanistan, Abkhazia, Georgia, Ossetia, and Moldova. By 11 December 1994 the total strength of the illegal armed elements in Chechnya was over 15,000 men.

As of **11 December 1994** the illegal armed elements had:

266 aircraft of various classes,

more than 120 tanks,

350 artillery systems,

890 antitank weapons,

80 air defense systems.

The Dudayev regime prepared intentionally for large-scale operations and created military command and control and communications arms and equipped command posts ahead of time.

Dudayev regarded the Russian Federation as his main adversary. He said plainly in his edict of 8 November 1991: *"I appeal to all Muslims living in Moscow to turn Moscow into a disaster zone in the name of our common freedom from kufr (Godlessness, lack of faith)."* The cities of Moscow and St. Petersburg were declared special zones.

The Spring-94 special plan of exercises, in which the armed forces of the Russian Federation were regarded as the potential enemy, was drawn up in March 1994.

And in September 1994 Dudayev signed an order for the preparation by 20 September 1994 of the necessary documents pertaining to the *Lasso* Plan, specifically, a schedule of the *"allocation of strategic enemy targets for strikes by the attack aviation of the Chechen Republic-Ichkeria"* with the indication of the armament delivery systems, the weapons, and performers of the combat missions. The commanders of the combat crews were appointed also.

A nuclear-waste burial site situated 22 km northeast of the city of Groznyy and ammonia tanks had been prepared for detonation by 8 December 1994.

The creation of armed elements by the Dudayev regime violated Article 13 of the Russian Constitution, which plainly bans the creation and activity of armed elements aimed at a forcible change in the principles of the constitutional system and a violation of the integrity of the Russian Federation and the undermining of the security of the state.

In terms of effective combat strength, the degree of study of military matters, and provision with equipment the Dudayev regime's illegal armed elements could have conducted combat operations of a military operation nature.

Dudayev's illegal armed elements were capable of developing, preparing, and conducting combat operations with the use of armored equipment, aviation, and all types of firearms.

He employed this force repeatedly.

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As of the middle of 1994 Dudayev *practically unleashed civil war on the territory of the Chechen Republic.*

The struggle for power and influence between *ancestral clans (teyp) and regional groupings* had intensified in the republic by this time.

The leaders of the groupings created their own large militarized structures, which included many criminals. They came to fully control the situation on substantial territory of the republic, and Dudayev's alliance and pact with some of them led to the crime kingpins dictating their terms to the authorities.

A principal center of resistance to Dudayev was Nadterechnyy Rayon, which had back at the end of 1993 even proclaimed the Provisional Council of the Chechen Republic headed by U. Avturkhanov, who shortly after appealed to the federal authorities for political support. Among the opposition itself there was a sharp growth of the influence of military leaders from Dudayev's former immediate entourage who had gambled on the armed removal of Dudayev.

The political struggle degenerated into open armed clashes with a large number of casualties among the peaceful population. **In June- October 1994** there was bloody fighting in Groznyy, in the localities of Argun, Tolstoy-Yurt, and Urus-Martan, and in Nadterechnyy Rayon.

The Dudayev regime turned the Chechen Republic into a military and political base of separatist forces in the Caucasus.

An instrument of realization of this policy was the Confederation of Peoples of the Caucasus. At a session of the Assembly of Mountain Peoples of the Caucasus (former name of the Confederation of Peoples of the Caucasus) in 1991 the actions of the OKChN in "carrying out the revolution" were approved and added to the armory.

In time the Chechen leadership, which generously financed the activity of the Confederation of Peoples of the Caucasus, came to dominate it and to use it in its own interests.

Summing up the analysis of the provisions of Chapter One of the Constitution of the Russian Federation, we come to the unequivocal and responsible conclusion that on a part of the territory of Russia, in Chechnya, all the fundamentals of the constitutional system had been completely demolished.

Esteemed chairman, esteemed justices of the Constitutional Court!

In the second part of the report we intend to show briefly the efforts of the leadership of the Russian Federation in respect to a political settlement of the Chechen crisis made throughout 1991- 1994, and then, to substantiate the authority for and necessity of the use of force for restoration of the fundamentals of the constitutional system, an end to the activity of the illegal armed elements, and a guarantee of law and order on the territory of the Chechen Republic and to prove the constitutionality of the edicts of the president of the Russian Federation and the decree of the Government of the Russian Federation.

In the first three years, from the fall of 1991 through the fall of 1994, the leadership of the Russian Federation **undertook a search for paths for a political** resolution of the Chechen crisis.

A brief chronology.

At the start of December 1991 the leadership of the RSFSR Supreme Soviet sent to Groznyy a group of independent experts, whose mission was thwarted by Dudayev.

More than a dozen meetings and consultations were conducted between representatives of the RSFSR Supreme Soviet and the Dudayev regime **in 1992.**

Thus the work of expert groups, which prepared for the negotiations a political declaration on the parties' mutual relations and also draft treaties on the principles of the relations of the Chechen Republic and the Russian Federation and agreements on trade and economic cooperation for 1992, was conducted **in March 1992** in Sochi and **in May of the same year** in Moscow.

Consultations on the creation of a bilateral commission, which was to have formulated measures for the development of political, economic, commercial, and social and cultural relations, took place **in October 1992.**

But the Chechen delegation broke off these consultations.

Difficult and tense negotiations with Chechen representatives connected with the attempt at a settlement of the Ossetian-Ingush conflict were conducted almost simultaneously.

In the course of a meeting between *S. Shakhray,* head of the Provisional Administration on the Territory of the North Ossetian ASSR and the Ingush Republic, and *Ya. Mamadayev, I. Suleymenov,* and elders, representatives of the Chechen Republic, agreement was reached **in November 1992** on the posting of federal forces and Dudayev's illegal armed elements at the point of their contact along the line of separation of the administrative areas of the Republic of Ingushetia and the Chechen Republic formalized by a special protocol in the village

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of Sleptsovskaya (Ingushetia) by *A. Kotenkov,* deputy head of the Provisional Administration, and *Mamadayev* representing Dudayev.

But at the moment of the signing of the protocol a group of Chechen combatants **headed by Dudayev himself** *carried out an attack on a Russian post not far from the village of Sleptsovskaya, which all but stymied the agreements that had been reached.*

Only an ultimatum of the Chechen Cabinet of Ministers and pressure on Dudayev on the part of the elders enabled this action to be carried out.

In the period from November 1992 through the end of January 1993 there was a series of meetings of delegations in Moscow and Groznyy under the leadership of *R. Abdulatipov,* chairman of the Council of Nationalities of the Supreme Soviet of the Russian Federation, and S. Shakhray, deputy chairman of the Government of Russia, and also *Yu. Soslambekov and Ya. Mamadayev.* A draft Treaty on the Delineation of Terms of Reference and Authority Between Organs of State Power of the Russian Federation and the Authorities of the Chechen Republic was prepared in the period of the **November-December 1992** Moscow consultations.

It was assumed as a basis for revision (by the Chechen delegation included).

But the treaty ran into the bitter resistance of Dudayev and his supporters. Dudayev, in fact, disavowed the delegation of Ya. Mamadayev and Yu. Soslambekov, calling their meetings with the Russian leadership *(I quote)* **"a private initiative," and on 6 January 1993 the OKChN declared that the draft treaty failed to conform to the spirit and letter of the Declaration on the State Independence of the Chechen Republic.**

Despite the bitter opposition to the processes of a political settlement on the part of Dudayev and the OKChN, the work continued. A decision was made at the negotiations of **14 January 1993** in Groznyy between a delegation of the Russian Federation *(R. Abdulatipov, S. Shakhray, V. Shuykov)* and Chechen representatives *(Kh. Akhmadov, B. Mezhidov, Yu. Soslambekov, Sh. Yusupov)* on the creation of working groups to prepare a Treaty on the Delineation and Mutual Delegation of Authority.

But the protocol on the delineation of authority signed on the results of the negotiations, which was intended to be the basis of the corresponding treaty, was disavowed practically immediately by Dudayev.

On 19 January 1993 the revised draft Treaty on the Delineation of Terms of Reference was published in the Chechen press, for which the persons who had published this draft were soon dropped from the leadership of the Chechen Republic.

In January-May the negotiations of the delegations on the preparation of an agreed text were continued in Moscow. **Once again Dudayev broke off the negotiations.**

On 17 June 1993 the Council of Nationalities of the Supreme Soviet of the Russian Federation adopted in connection with the stymieing of a referendum on the status of Chechnya a declaration which called on the federal authorities and the leadership of Chechnya and other republics of the North Caucasus to immediately take the necessary steps for a normalization of the situation in the Chechen Republic, assist the population, and restore peace, order, and democracy in the republic.

The latter half of 1993 produced no constructive results in the process of a political settlement. Sticking precisely to Dudayev's principle of strictly upholding "the state independence of Chechnya and the status of subject of international law," the Chechen side had contacts with the federal center exclusively at the level of the so-called Chechen Ministry of Foreign Affairs (headed by Sh. Yusef, **a citizen of Jordan. He was in charge of this ministry in this capacity even).** Dudayev was now demanding a personal meeting with the president of Russia and immediate recognition of Chechnya's independence.

The period from the end of 1993 through the start of 1994 was characterized by the emergence in the Chechen Republic of new political entities laying claim to participation in the negotiating process. Specifically, the *Provisional Council of the Chechen Republic,* which sent to Moscow its representatives headed by *U. Avturkhanov and V. Yugas.*

A number of documents determining the political formula of a settlement of the Chechen crisis were adopted in 1994.

This is a very important point.

In February 1994 the message of the president of the Russian Federation to the Federal Assembly pointed out that the basis for a settlement of relations between the federal authorities and the Chechen Republic **"could be the holding in Chechnya of free democratic elections and negotiations on a delineation of powers with the federal authorities."**

The president of Russia charged the government with holding the necessary consultations with all political forces in the Chechen Republic and with preparing on

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the basis of these a Treaty on the Delineation of Terms of Reference and the Mutual Delegation of Authority.

This position was supported by the State Duma of the Russian Federation in a decree of **25 March 1994.**

As far as the group of deputies of the Federation Council is concerned, I shall cite the following circumstances.

The draft of a similar decree of the Federation Council, that is, a decree with a political formula of a settlement of the Chechen crisis based on free elections and a treaty delineating authority, was officially submitted by the Government of Russia, unfortunately, it was not even put on the agenda in the upper chamber and was not considered, despite repeated requests and appeals.

As a result, the harmonization and unity of actions of the chambers of the Federal Assembly, the president, and the Government of the Russian Federation were not achieved, which subsequently complicated the adoption of most important political decisions pertaining to a settlement of the crisis in the Chechen Republic.

Consultations were conducted in May 1994 with various political forces of the Chechen Republic. These talks were held against the background of a sharp aggravation of the social and political situation in the Chechen Republic.

Let us recall.

In **June 1994** on the pretext of the *"localization and disarmament of the gang elements"* of the opposition, Dudayev's armed elements mounted a power action in Groznyy, which entailed casualties among the civilian population. A series of military operations of the Dudayevites against the forces of the opposition in **July-September 1994**, specifically, in the area of the localities of Argun and Urus-Martan and in a number of localities of Nadterechnyy Rayon, caused the death of hundreds of peaceful citizens.

Even in this adverse situation the president and the Government of the Russian Federation continued to consider possible the use of political means for a resolution of the crisis.

On **1 December 1994** the president of the Russian Federation issued the edict *"Certain Measures To Strengthen Law and Order in the North Caucasus,"* which recommended that the General Procuracy of the Russian Federation not institute criminal proceedings against persons who were not implicated in serious crimes against the peaceful population on the territory of the North Caucasus and who voluntary laid down their weapons before 15 December 1994.

On **12 December 1994** the president of the Russian Federation sent a letter to deputies of the Federation Council and the State Duma of the Federal Assembly of the Russian Federation (I would also like to call the attention of both the justices and the esteemed deputies of both chambers to this). In this document the head of state requested that both chambers of the Russian Parliament work out a common policy of the federal authorities in respect to a settlement of the Chechen crisis, formulate a constructive viewpoint on the ways out of it, and specify framework conditions for negotiations, having determined their object, subject, and conditions.

Please understand, not constant appeals for people to live in peace and not do such and such! The president asked the chambers of the Federal Assembly to formulate framework conditions of a political settlement of the Chechen crisis.

Why was this necessary? The decree of the Fifth Congress of People's Deputies on the illegality of elections and the illegitimacy of all current authorities in Chechnya was still in effect. As soon as the executive attempted to enter into negotiations with the illegitimate authorities, it was slapped on the wrist. This was particularly the case in the period of the diarchy, in the period of the confrontation between the president and the Supreme Soviet of the RSFSR headed by Khasbulatov.

A response, as far as we know, was not forthcoming.

Simultaneously, active meetings between the Working Commission of the Government of the Russian Federation and representatives of various social and political forces of the Chechen Republic, which were held on the territory of the Republic of Ingushetia, continued. Thus **on 12 December 1994** a protocol was signed in Vladikavkaz on the results of the negotiations between representatives of the Working Commission of the Government of the Russian Federation and a delegation of the Provisional Council of the Chechen Republic *(A. Asmolov,* deputy leader of the Working Commission, and *B. Baskhanov,* leader of the delegation of the opposition Provisional Council).

The representatives of the Chechen opposition undertook to cease combat operations and to disarm in the agreed procedure. Both delegations agreed to consider each other's proposals on problems of a regularization of the situation in the republic.

A statement of the Working Commission of the Government of the Russian Federation of **14 December 1994**

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on the progress of the negotiations with the Dudayev delegation pointed out that the Working Commission *(T. Abubakarov,* leader) **rejected the fundamental propositions permitting a resolution of the crisis situation in the Chechen Republic by peaceful means. The Dudayev delegation refused to disarm the illegal armed elements on the basis of the Constitution of the Russian Federation and to formulate a mechanism of actual disarmament.**

Subsequently also, in the period of combat operations, the president and the government persisted with their attempts at a political settlement of the crisis.

Conclusions

Thus for three years the federal authorities had repeatedly attempted a political settlement of the crisis in the Chechen Republic. But no initiative produced results for the following reasons:

1. The negotiations were of a protracted nature in connection with the existence of two antagonistic policies in the leadership of the Chechen Republic. The part that understood the need for the preservation of the unity of the economic system of Chechnya within the Russian Federation had advocated a "prudent confederation" and took an active part in the negotiations. But they were all "squeezed" in planned fashion by Dudayev out of the process of a political settlement and deprived of their posts and even "citizenship of the Chechen Republic," and the agreements that they reached with the federal leadership were consistently repudiated.

Accusing his recent associates of a betrayal of "national interests" merely for having attempted to find a political compromise with the federal leadership, Dudayev thereby cut off for himself the road to the achievement of some constructive solutions in respect to a settlement of the Chechen crisis.

Dudayev and his immediate entourage rigidly insisted on the immediate recognition of the state independence of the Chechen Republic by the federal authorities **as a prior condition** of a political settlement of the crisis. This is why Dudayev broke off all negotiations as soon as they reached the stage of the adoption of specific decisions on the two main questions:

the preparation and signing of a treaty on the division of terms of reference and authority between the federal organs of power and organs of power of the Chechen Republic;

the determination of a mechanism of the disarmament and termination of the activity of the illegal armed elements on the territory of the Chechen Republic.

For the Dudayev regime the political method of a resolution of the crisis presupposing the restoration of even *limited* federal power on the territory of the Chechen Republic meant the loss of **his** power as such, the destruction of its "criminal-economic" foundations included.

2. The complexity of the political situation in the Russian Federation, the shortcomings of the current legislative base, and the confrontation of the legislature and the executive in 1992-1993 had a sharply negative impact on a settlement of the crisis in the Chechen Republic.

3. The actions of the federal executive authorities in respect to a political settlement of the crisis in Chechnya were extremely limited by the decision of the Fifth Congress of People's Deputies (2 November 1991), which remained in force. The legislative authorities of the Russian Federation did not reconsider or suspend (for the period of negotiations) this decision of the Congress.

Only on 25 March 1994 did the State Duma of Russia adopt a decree determining the general political formula of a resolution of the Chechen crisis. But the Federation Council shunned the formulation of a concerted position of the Federal Assembly of Russia.

4. The protracted nature of the negotiations **intensified the political crisis** in the Chechen Republic and enabled Dudayev to gain time to build up the forces of the illegal armed elements and could have engendered the illusion of legitimization of the regime.

5. Sociopolitical tension, which as of the summer of 1994 had grown, in fact, into a "civil war" phase, grew constantly in the Chechen Republic throughout the period 1991-1994.

The scale of the violations of citizens' rights and the mass casualties among the peaceful population in the course of the armed clashes between Dudayev's illegal armed elements and the opposition forces made impossible a continuation of the dialogue **UNTIL** the disarmament and curtailment of the activity of the illegal armed elements.

Esteemed chairman, esteemed justices of the Constitutional Court!

Let us turn to proof of the legitimacy of the use by the president and the Government of Russia of the armed forces for the restoration of constitutional legality and law and order on the territory of the Chechen Republic.

As has been shown, an anticonstitutional regime which had demolished the foundations of the constitutional

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system, mounted terrorist activity against citizens of Russia, and created illegal armed elements and which represented a threat to the sovereignty and state integrity of the Russian Federation had emerged on the territory of the Chechen Republic.

The numerous attempts to resolve the Chechen problem by way of political dialogue were exhausted. Under these conditions the president and the Government of the Russian Federation were not only **entitled but duty bound** to employ force on part of the territory of the country, including the use of the armed forces and other troops of the Russian Federation.

I disagree with esteemed Yuriy Khamzatovich Kalmykov that the edicts were based on a sole article of the constitution.

The president of the Russian Federation relied in his edicts on the following articles of the **Constitution of the Russian Federation:**

part one of Article 15 of the Constitution of the Russian Federation, in accordance with which the Constitution of the Russian Federation has supreme legal force and direct operation and applies throughout the Russian Federation;

Article 80, according to which the president of the Russian Federation is the guarantor of the Constitution of the Russian Federation and the rights and liberties of man and citizen;

Article 80, which specifies that the president of the Russian Federation shall adopt measures to safeguard the sovereignty of the Russian Federation and its independence and state integrity and provide for the concerted operation and interaction of the organs of state power;

Article 82, which contains in the text of the oath of the president of the Russian Federation the obligation to defend the sovereignty and independence, security, and integrity of the state;

part five of Article 13, which prohibits the creation of illegal armed elements on the territory of the Russian Federation;

Article 87, according to which the president of the Russian Federation is the supreme commander in chief of the armed forces of the Russian Federation.

In what instances is the president of Russia required to coordinate his actions with the Federal Assembly when using the country's armed forces?

In accordance with **part two of Article 87** of the Constitution of the Russian Federation, the president of the Russian Federation is required to immediately notify the Federation Council and the State Duma of his imposition of martial law in the event of aggression against the Russian Federation or the threat of aggression.

In accordance with clause "d" of **part one of Article 102** of the Constitution of the Russian Federation, also pertaining to the jurisdiction of the Federation Council is the consideration of a question of the possibility of the use of the armed forces of the Russian Federation **outside of the territory of the Russian Federation.**

And only this.

The Constitution of the Russian Federation makes provision for no other limitations of the possibility of the use by the president of the Russian Federation of the armed forces and other troops of the Russian Federation to safeguard the sovereignty of the Russian Federation and its independence and state integrity against internal sources of military threats.

Part two of Article 80 of the Constitution of the Russian Federation contains here no direct references to federal laws determining the procedure of the adoption by the president of the Russian Federation of measures to safeguard the sovereignty of Russia and its independence and state integrity.

Our conclusion as to the legitimacy of the use by the president of the Russian Federation of armed force for the restoration of constitutional legality and law and order on the territory of the Chechen Republic is based not only on an analysis of the provisions of the Constitution with regard to the proposition concerning their direct operation.

We maintain **that the use of the armed forces of the Russian Federation on the territory of the Chechen Republic did not contravene current legislation of the Russian Federation.**

We shall begin with the law "On Security"

In accordance with Article 1 of the *law,* security is the state of protection of the vitally important interests of the individual, society, and the state against **internal** and external threats. The said article attributes to the principal objects of security:

the individual—his rights and liberties;

society—its material and spiritual values;

the state—its constitutional system, sovereignty, and territorial integrity.

Article 3 of the law "On Security" specifies that a real and potential **threat** to the objects of security **emanating from internal and external sources shall**

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determine the substance of activity in support of internal and external security. For this reason Article 11 of this law requires the president of the Russian Federation to adopt **operational decisions** to maintain security.

The armed forces of the Russian Federation pertain, according to Article 12 of the law of the Russian Federation "On Security," to the forces maintaining security.

Esteemed chairman!

I would especially like to call the attention of our opponents to the fact that, taking the Constitution and the law as the basis, the president of the Russian Federation **is required to adopt an operational decision to maintain the security of the Russian Federation, having employed all forces for the maintenance of security, the country's armed forces included.**

The laws "On Defense," "On the Status of Servicemen," and "On Military Duty and Military Service"

The interpellations point to the contradiction of the contested acts with parts two and three of Article 10 of the law "On Defense." We would like in this connection to note the following.

Part two of Article 10 of the law "On Defense," to which the interpellating parties refer, should be interpreted with regard to the general provisions of this law and also the laws "On Security," "On the Status of Servicemen," and "On Military Duty and Military Service."

Part one of Article 1 of the general provisions of the law of the Russian Federation "On Defense" establishes that defense is a component of security and a most important function of the state. According to this article, what is understood by defense is **a system of political, economic, military, social, legal, and other measures to maintain the state's readiness for defense not only against an armed attack but also for protection of the population and the territory and sovereignty of the Russian Federation proper.**

As follows from Article 1 of this law, defense shall be organized and accomplished in accordance with international law, the Constitution of the Russian Federation, and current legislation and also with the military doctrine of the Russian Federation.

According to the *Basic Propositions of Military Doctrine of the Russian Federation,* the following, specifically, are defined as being the principal **internal sources** of military threats, to counteract which the armed forces and other troops of the Russian Federation may be used:

the unlawful activity of nationalist, separatist, and other organizations aimed at the destabilization of the internal situation in the Russian Federation and a violation of its territorial integrity and pursued with the use of armed violence,

the disorganization of the operation of the organs of state power;

the creation of illegal armed elements;

a growth of organized crime on a scale threatening the security of the citizens and society;

an attack on arsenals, weapons stores, arms-manufacturing enterprises, military and specialized equipment and property, and organizations, institutions, and structures possessing authorized weapons for the purpose of capturing them;

the illegal proliferation on the territory of the Russian Federation of weapons, munitions, explosives, and other means of accomplishing sabotage and terrorist acts.

The law of the Russian Federation "On the Status of Servicemen," which took effect on 1 January 1993, establishes the general obligations of servicemen of the armed forces and other troops of the Russian Federation.

Proceeding from Article 24 of the said law, protection of the state sovereignty and territorial integrity of the Russian Federation, maintenance of the security of the state, and the repulse of an armed attack constitute the essence of the military duty and purpose of servicemen.

The law of the Russian Federation "On Military Duty and Military Service" attributes the discharge of these obligations to the obligations of military service, furthermore.

In accordance with Article 36 of the said law, what is understood by execution of the duties of military service are, in particular, participation in combat operations, execution of official duties in accordance with military regulations, protection of the life, health, honor, and dignity of the individual, and **assistance to law enforcement authorities in support of legality and law and order.**

Truly, part three of Article 10 of the law of the Russian Federation "On Defense" permits the enlistment of units, subunits, and other elements of the armed forces of the Russian Federation in the performance of assignments unconnected with their purpose only on the basis of the law or in accordance with a decree of the RSFSR Supreme Soviet.

But:

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This part of the article of the said law contravenes the Constitution of the Russian Federation inasmuch as the RSFSR Supreme Soviet does not exist, and the Federal Assembly has no power to adopt decisions on the possibility of the use of the armed forces within the country.

In accordance with **clause two of Section Two of the Constitution of the Russian Federation,** part three of Article 10 of the said law is deemed by *Edict No. 2288 of the president of the Russian Federation of 24 December 1993 "Measures To Bring Legislation of the Russian Federation Into Line With the Constitution of the Russian Federation"* **null and void and not applicable** by federal organs of state power and their officials.

Thus a legal analysis of the **laws of the Russian Federation "On Security," "On Defense," "On the Status of Servicemen," and "On Military Duty and Military Service"** *permits the conclusion that the president of the Russian Federation, adopting a decision on the use of the armed forces and other troops of the Russian Federation on the territory of the Chechen Republic,* **did not transgress not only the sense but also the letter of the said** *federal laws.*

The interpellations of groups of deputies of the State Duma and the Federation Council and the speeches that have already been heard have called in question the **Basic Propositions of Military Doctrine of the Russian Federation.**

Thus deputies of the State Duma of the Federal Assembly dispute in their interpellation the constitutionality of the edict of the president of Russia of 2 November 1993 "On the Basic Propositions of Military Doctrine of the Russian Federation" where it deals with the possibility of the use of the armed forces of the Russian Federation in the resolution of internal conflicts.

In justification of their position they cite the fact that this edict contravenes part two of Article 59 of the Constitution of the Russian Federation. But the Basic Propositions of Military Doctrine adopted by the edict do not, **generally speaking,** contain questions of the performance of military service, to which part two of Article 59 of the Constitution is devoted.

The *Basic Propositions of Military Doctrine* of Russia have become an integral part of the *Concept of Security of the Russian Federation* which is in preparation and represent **a system of the views officially accepted in the state on the prevention of wars and armed conflicts, military organizational development, preparation of the country for defense,** organization of a countermeasure to **BOTH INTERNAL** and external threats to the military security of the state, and use of the armed forces and other troops of the Russian Federation for the protection of the vitally important interests of the state. These propositions do not establish not only the obligations of the citizens in respect to the performance of military service but also the powers of state authorities and officials.

The *Basic Propositions of Military Doctrine of the Russian Federation* specify the implementation by the state of coordinated measures of a political, economic, legal, and military nature with the enlistment of all organs of state power, public associations, and citizens of the Russian Federation and **do not contain any provisions qualifying the constitutional rights and liberties of man and citizen or establishing obligations in contravention of Article 59 of the Constitution of the Russian Federation.** Military duty, actual military service, service in the reserve, and other matters connected with military service are regulated, as required by part two of Article 59 of the Constitution of the Russian Federation, by a special law—*the law of the Russian Federation "On Military Duty and Military Service."*

The *Basic Propositions of Military Doctrine of the Russian Federation* were adopted by Edict No. 1833 of the president of the Russian Federation of 2 November 1993 "On the Basic Propositions of Military Doctrine of the Russian Federation." **In accordance with clause "h" of Article 83 of the Constitution of the Russian Federation, the military doctrine of the Russian Federation shall be confirmed by the president of the Russian Federation.**

Thus Edict No. 1833 of the president of the Russian Federation of 2 November 1993 "On the Basic Propositions of Military Doctrine of the Russian Federation" and the Basic Propositions of Military Doctrine which it adopted both in terms of their substance and at the level of the jurisdiction of the president of the Russian Federation do not contravene the Constitution of the Russian Federation.

Now we shall substantiate legally the constitutionality of the acts of the president and the Government of the Russian Federation aimed at the restoration of the foundations of the constitutional system on the territory of the Chechen Republic.

Implementing measures aimed at the restoration of the constitutional system on the territory of the Chechen Republic, the president and the Government of Russia adopted a number of acts aimed at realization of these measures.

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They include primarily the edicts of the president of Russia of 30 November 1994, 9 December 1994, and 11 December 1994.

Edict No. 2137 of the president of the Russian Federation of 30 November 1994 "Measures To Restore Constitutional Legality and Law and Order on the Territory of the Chechen Republic"

Edict No. 2137 of the president of the Russian Federation of 30 November 1994 made provision for the implementation of measures to restore constitutional legality and law and order on the territory of the Chechen Republic according to an appended plan and also created a group for the leadership of operations for the disarmament and elimination of armed elements and preparation for the imposition of state of emergency procedures on the territory of the Chechen Republic in the event of the conditions for a state of emergency having been created.

This edict was deemed to have **lapsed** *by Edict No. 2169 of the president of the Russian Federation of 11 December 1994 "Measures To Maintain Legality, Law and Order, and Public Safety on the Territory of the Chechen Republic."*

The decision to cancel the edict of 30 November 1994 was made in connection with the change in the composition, leadership, and functions of the said group and also the recognition of the impossibility of the imposition on the territory of the Chechen Republic of state of emergency procedures prior to the elimination of the heavy arms, disarmament, and curtailment of the activity of the illegal armed elements *(essentially, of Dudayev's regular professional army,* **which was acknowledged by our opponents also)** and the creation of provisional authorities recognizing the Constitution of the Russian Federation.

Edict No. 2137 **did not contain** a *legislative* qualification of the rights and liberties of the citizens, and for this reason its publication was not obligatory, and its restricted nature does not contravene part three of Article 15 of the Constitution of the Russian Federation.

As far as the claims that the edict in question violated human rights and liberties are concerned, it is appropriate to emphasize here that complaints of violations of constitutional rights and liberties **may be a subject of investigation in the Constitutional Court only in two instances:**

a) as grounds for verification of the constitutionality of a law applied or applicable in specific legal proceedings *(Articles 96 and 97 of the law on the Constitutional Court);((end italics))*

b) as grounds for determination of the conformity to the Constitution of a law-making instrument which had been canceled or which had lapsed by the start or in the period of proceedings in a case in the Constitutional Court *(Article 43 of the law on the Constitutional Court).*

An interpretation of the practice of application of the law mentioned in Article 74 of the law on the Constitutional Court should, in our view, **be given in a context with Article 3 of the law,** which says that the Constitutional Court shall refrain from the establishment and investigation of the factual circumstances in all cases where this is part of the jurisdiction of other courts or other authorities.

This means that for corroboration of an evolved practice of application of the law it is essential to have rulings of other courts or other competent authorities which have established that application of the contested act in practice has already led to recurrent violations of rights and liberties.

The Constitutional Court itself (we emphasize this for our esteemed opponents!) does not, in accordance with the law, establish specific instances of a violation of rights and liberties and their multiplicity (systemic character) and the causal relationship of these violations with a given contested act (that these violations were an effect of the application of the given act, that is).

In respect to Edict No. 2137, which was signed on 30 November 1994 and canceled on 11 December 1994, there are no legally established grounds (proof) for maintaining that a practice of application of the law accompanied by recurrent violations of rights and liberties had come about as a result of its realization.

Based on what has been set forth, the proceedings in respect to Edict No. 2137 of the president of the Russian Federation of 30 November 1994 should, in our opinion, in accordance with part two of Article 43 of the law on the Constitutional Court, be terminated altogether.

Edict No. 2169 of the president of the Russian Federation of 11 December 1994 "Measures To Maintain Legality, Law and Order, and Public Safety on the Territory of the Chechen Republic"

Edict No. 2169 of the president of the Russian Federation of 11 December 1994 provides together with the previous group for the creation of a "group for leadership of operations to maintain legality, law and order, and public safety and for the disarmament and elimination of armed elements not specified by legislation on the territory of the Chechen Republic." Overall leadership of this group was entrusted to Nikolay Dmitriyevich Yegorov, deputy chairman of the Government of

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the Russian Federation, and to the minister of defense of the Russian Federation, coordination of the activity of the forces for maintaining security allocated for the normalization of the situation on the territory of the Chechen Republic.

The edict of 11 December 1994 does not prescribe measures of an emergency nature in the Chechen Republic nor does it contain provisions qualifying the rights and liberties of man and citizen.

Edict No. 2166 of the president of the Russian Federation of 9 December 1994 "Measures To Suppress the Activity of Illegal Armed Elements on the Territory of the Chechen Republic and in the Ossetian-Ingush Conflict Zone"

This edict of the president of the Russian Federation charged the Government of the Russian Federation with utilizing in accordance with its powers specified by clauses "e" and "f" of part one of Article 114 of the Constitution of the Russian Federation all means available to the state in support of state security, legality, the rights and liberties of the citizens, the safeguarding of public order, the fight against crime, and the disarmament of all illegal armed elements on the territory of the Chechen Republic.

An analysis of the interpellation of the Federation Council of the Federal Assembly concerning conformity to the Constitution of the Russian Federation of Edict No. 2166 of the president of the Russian Federation of 9 December 1994 "Measures To Suppress the Activity of Illegal Armed Elements on the Territory of the Chechen Republic and in the Ossetian-Ingush Conflict Zone" shows that it points to not a single specific clause contained in this edict contravening this provision or the other of the Constitution of the Russian Federation.

Edict No. 2166 was adopted on the grounds of the following articles of the Constitution of the Russian Federation:

Article 80, which specifies that the president of the Russian Federation shall adopt measures to safeguard the sovereignty of the Russian Federation and its independence and state integrity and provide for the concerted operation and interaction of the organs of state power;

Article 82, which contains in the text of the oath of the president of the Russian Federation the obligation to defend the sovereignty and independence, security, and integrity of the state;

part five of Article 13, which prohibits the creation on the territory of the Russian Federation of illegal armed elements.

The edict does not establish any supplementary powers of the Government of the Russian Federation not contained in the Constitution of the Russian Federation and federal laws and merely orders the Government of the Russian Federation to make full use of its constitutional functions and authority for the maintenance of state security, the territorial integrity of the Russian Federation, the restoration of legality, the defense of the constitutional rights and liberties of the citizens, and the disarmament of illegal armed elements.

Thus Edict No. 2166 of the president of the Russian Federation of 9 December 1994 does not contravene the provisions of the Constitution of the Russian Federation.

Now concerning Decree No. 1360 of the Government of Russia of 9 December 1994 "Maintenance of the State Security and Territorial Integrity of the Russian Federation, Legality, and the Rights and Liberties of the Citizens and the Disarmament of Illegal Armed Elements on the Territory of the Chechen Republic and the Adjacent Regions of the North Caucasus"

Together with the edicts of the president of the Russian Federation, a number of questions of the restoration of the fundamentals of the constitutional system in the Chechen Republic were decided by Decree No. 1360 of the Government of the Russian Federation.

This decree was issued in accordance with clauses "e" and "f" of part one of Article 114 of the Constitution of the Russian Federation and on the grounds of Edict No. 2166 of the president of the Russian Federation.

According to clauses "e" and "f" of Article 14 of the Constitution of the Russian Federation, the Government of the Russian Federation shall implement measures in support of the defense of the country, state security, legality, and the rights and liberties of the citizens.

It is impossible in this connection to agree with the position set forth in the interpellation of the deputies of the State Duma of the Federal Assembly concerning the impossibility of the application of provisions of the Constitution of the Russian Federation, specifically clauses "e" and "f" of part one of Article 114 of the Constitution of the Russian Federation, in connection with the absence of a federal law establishing the mechanism of their realization. If the Constitution of the Russian Federation has supreme legal force and direct operation throughout the Russian Federation, the absence of a federal law regulating the procedure of realization of this provision or the other of the Constitution of the Russian Federation is not grounds for their nonapplication.

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The interpellations of the Federation Council and the deputies of the State Duma of the Federal Assembly of Russia call in question the constitutionality of Decree No. 1360 of the Government of Russia of 9 December 1994 "Maintenance of the State Security and Territorial Integrity of the Russian Federation, Legality, and the Rights and Liberties of the Citizens and the Disarmament of the Illegal Armed Elements on the Territory of the Chechen Republic and Adjacent Regions of the North Caucasus" **for the following reasons:**

the operations of the MVD and the FSK [Federal Counterintelligence Service] of Russia in realization of the decree wrongfully qualified the constitutional rights and liberties of citizens on the territory of the Chechen Republic;

qualifications of the rights and liberties of man and citizen may be established, according to part three of Article 55 of the Constitution of the Russian Federation, only by federal law, not legally binding enactment;

the qualifications of the rights and liberties of the citizens enshrined in Article 23 of the law of the RSFSR "On a State of Emergency" are an element of the state of emergency procedures and may apply only under the conditions of a state of emergency;

the decree does not contain, contrary to the prescription of part one of Article 56 of the Constitution of the Russian Federation, a timeframe or limits of the operation of the qualifications of the rights and liberties of the citizens.

We consider it erroneous to equate, as the interpellations do, **qualifications** of the rights of the citizens and a **violation** of their rights.

A legitimate qualification of the rights of the citizens based on part three of Article 55 of the Constitution of the Russian Federation has nothing in common with their unlawful and arbitrary infringement, which constitutes the essence of a violation of these rights.

The measures specified by the decree, aimed at the restoration of constitutional order on the territory of the Chechen Republic and entailing a qualification of the rights of the citizens, do not impose new, prescriptive qualifications not established by law.

If, however, the qualification of the rights of the citizens is legitimate and ensues from part three of Article 55 of the Constitution of the Russian Federation and is geared to the defense of the constitutional system and maintenance of the security of the state, the excesses of its application perpetrated in practice may not be regarded as causally connected with the adoption of such provisions.

Decree No. 1360 of the Government of the Russian Federation of 9 December 1994 was, as its very name implies, adopted with the aim of maintaining primarily security, legality, and the rights and liberties of citizens on the territory of the Chechen Republic, on which the fundamentals of the constitutional system had been destroyed and the Dudayev regime was perpetrating mass violations of the rights and liberties of the citizens.

The assertion contained in the interpellation of a group of deputies of the Federation Council that it was the execution of the measures to restore constitutional order and the use to this end of the armed forces which entailed the mass violation of the rights and liberties of Russian citizens enshrined in the Constitution of the Russian Federation is not substantiated, therefore.

The powers of the federal executive authorities, including the MVD and the FSK of Russia, specified by this decree are designed to secure the restoration of the constitutional system and the rights and liberties of the citizens on the territory of Chechen Republic.

The powers of the arms of the MVD and the FSK of the Russian Federation specified in clause three of Decree No. 1360 of the Government of the Russian Federation of 9 December 1994 pertaining to the confiscation of illegally stored weapons and the ascertainment and detention of persons suspected of having perpetrated serious crimes, including measures involving certain qualifications of the rights and liberties of the citizens, are based on their jurisdiction established by current federal laws, specifically, the laws of the Russian Federation "On the Police," "On the Interior Troops of the Ministry of Internal Affairs of the Russian Federation," and "On Operational-Search Activity in the Russian Federation" and also by the edict of the president of the Russian Federation "Urgent Measures To Protect the Population Against Gangsterism and Other Manifestations of Organized Crime."

The measures specified by clause three of the decree: for checking papers and examining motor vehicles and a personal examination of citizens entering the republic and leaving the republic; for a check of papers in places where the citizens gather; for the personal examination of the citizens and the examination of residential and nonresidential premises and means of transport should there be information on the citizens' possession of weapons, **are based on the jurisdiction of the corresponding authorities and officials established by Articles 1 and 2 and part one of Article 23 of the law of the Russian Federation "On the Interior Troops of the Ministry of Internal Affairs of the Russian Federation," that is, as required by Article 55 of the Constitution, by federal laws.**

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Article 1 of the law on the interior troops of the Russian Federation MVD establishes that the interior troops are intended to protect the interests of the individual, society, and the state and the constitutional rights and liberties of the citizens against criminal and other unlawful encroachments. Proceeding from this purpose, Article 2 entrusts to these troops assignments for assistance to the internal affairs authorities of the Russian Federation in the guarding of public order and the maintenance of public safety and also for the guarding of important state facilities and special freight.

Part one of Article 23 of the law of the Russian Federation "On the Interior Troops of the Ministry of Internal Affairs of the Russian Federation" accords servicemen of the interior troops the right:

to check the ID's of citizens and officials if there is sufficient reason to suspect them of having committed a crime or administrative offense;

to arrest and detain in official premises of the interior troops until their handover to the police authorities persons who have encroached on guarded facilities, conduct a personal examination of them, examine their belongings, and confiscate their belongings and papers;

examine means of transport and floating craft (ships) which have violated the rules established at facilities guarded by the interior troops;

in accordance with a decision of a senior operations commander, and in exceptional cases, the commander of an army unit or subunit, cordon off (blockade) areas of ground, individual structures, and other facilities in the suppression of mass unrest and group disturbances of public order, examining, where necessary, means of transport and floating craft (ships).

The measures established by the same clause of Decree No. 1360 of the Government of the Russian Federation of 9 December 1994 for expelling from the Chechen Republic persons who represent a threat to public safety and the personal safety of the citizens and who do not reside on the territory of this republic are based on the jurisdiction of the corresponding authorities and officials established by clause 22 of Article 11 of the law of the Russian Federation "On the Police" and part one of Article 23 of the law of the Russian Federation "On the Interior Troops of the Ministry of Internal Affairs of the Russian Federation."

Thus clause 22 of Article 11 of the law of the Russian Federation "On the Police" establishes that for discharging the obligations entrusted to them, the police are accorded the right to bar citizens' admittance to particular areas of ground and properties and to require them to remain there or leave these areas and properties, and part one of Article 23 of the law of the Russian Federation "On the Interior Troops of the Ministry of Internal Affairs of the Russian Federation" accords servicemen of the interior troops the right to arrest and detain in official premises of the interior troops until their handover to the police authorities persons who have encroached on guarded facilities and to conduct a personal examination of them and an examination of their belongings and to confiscate their belongings and papers.

In an assessment of the legitimacy of the use of the above- mentioned measures specified by the decree it is essential to take account of the fact that legitimate authorities specified by the law of the Russian Federation "On the Police" did not exist on the territory of the Chechen Republic at the time the decree was adopted. The servicemen of the interior troops had, therefore, to adopt measures to maintain public order and suppress crimes, which, as we have observed, corresponds to the law on military duty and military service (Article 36).

Thus Decree No. 1360 of the Government of the Russian Federation of 9 December 1994 was adopted in accordance with clauses "e" and "f" of Article 114 and Article 3 [as published] of Article 55 of the Constitution of the Russian Federation and was geared to the restoration and protection of the rights and liberties of citizens on the territory of the Chechen Republic.

Illustration of the question of the legitimacy of the application of the armed forces of the Russian Federation on the territory of the Chechen Republic and the constitutionality of the acts of the president and the Government of the Russian Federation at issue could be concluded at this point were account not to be taken of the need for a clarification of **the question of application of the law on a state of emergency.**

The interpellation of the group of deputies (members) of the Federation Council of the Federal Assembly in the Constitutional Court of the Russian Federation presents as substantiation of the unconstitutionality of Edict No. 2137 of the president of the Russian Federation of 30 November 1994 the argument that its recital contains a reference to Article 88 of the Constitution of the Russian Federation, in accordance with which the president of the Russian Federation shall under the circumstances and in the procedure specified by federal constitutional statute impose a state of emergency on the territory of the Russian Federation or in particular localities.

A state of emergency was not imposed on the territory of the Chechen Republic for the following reasons.

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1. It was impossible within the framework of the law of the RSFSR "On a State of Emergency" to adopt adequate measures for the disarmament of the illegal armed elements since they were equipped with modern military hardware (aircraft, tanks, artillery, and so forth) and armaments, and such military equipment was not specified for the arsenal of the military units and subunits of the interior troops of the MVD of Russia.

Application of the law on a state of emergency is a measure that is not appropriate to the danger.

2. The provisions of Articles 1, 6, 13, 16, 17, and 20 of the law of the RSFSR "On a State of Emergency" presuppose the existence on the territory where a state of emergency is imposed of legitimate authorities and institutions. In addition, Article 20 of this law specifies that these authorities fully recognize the RSFSR and its legislation inasmuch as they undertake to render the state authorities the utmost assistance to achieve the purposes of the state of emergency.

On the territory of the Chechen Republic, meanwhile, legitimate authorities and institutions interested in a restoration of constitutional order were virtually absent. Structures of power not simply contravening the Constitution of the Russian Federation but also putting up armed resistance, on which it was impossible for the federal organs of state power to rely, were operating on this territory. It was against their anticonstitutional activity that the acts of the president and the Government of the Russian Federation in question were aimed.

Considering this, the realization of a state of emergency on the territory of the Chechen Republic was from the practical viewpoint impossible, and from the legal viewpoint, illegitimate, inasmuch as this would have contravened a number of articles of the law of the RSFSR "On a State of Emergency."

In addition, nor should it be forgotten that, in accordance with Article 88 of the Constitution of the Russian Federation, the president of the Russian Federation shall impose a state of emergency on the territory of the Russian Federation or in particular localities under the circumstances and in the procedure specified by federal **constitutional** statute. But such a law has as yet to be adopted (it is simply absent).

It should be noted, furthermore, that the law of the RSFSR "On a State of Emergency," which was adopted on 17 May 1991, specifies a number of provisions incompatible with the actual situation that took shape following the end to the existence of the USSR. Thus in accordance with Article 21 of the said law, the president of the RSFSR shall in exceptional cases on behalf of the RSFSR Supreme Soviet when imposing a state of emergency on the grounds established by clause "b" of Article 4 (natural disasters, epidemics, epizootic disease, and major accidents jeopardizing the life and health of the population and requiring emergency-rescue and restoration work) adopt measures for the enlistment of the armed forces under the jurisdiction of authorities of the USSR. This procedure of the enlistment of the armed forces of the USSR was acceptable in the period when the RSFSR was part of the USSR and lacked its own armed forces.

With the creation of armed forces of the Russian Federation (Edict No. 466 of the president of the Russian Federation of 7 May 1992) which are not the successor to the armed forces of the USSR and the president of the Russian Federation's assumption on 7 May 1992 of the position of supreme commander in chief of the armed forces of the Russian Federation (Edict No. 467 of the president of the Russian Federation of 7 May 1992) and also the adoption on 12 December 1993 of the Constitution of the Russian Federation, a legal vacuum, which called in question the possibility of the application to the armed forces of the Russian Federation of the procedure of the enlistment of the armed forces of the USSR in the accomplishment of assignments under the conditions of a state of emergency established by Article 21 of the law of the RSFSR "On a State of Emergency," was formed.

For this reason the assertion of the group of deputies (members) of the Federation Council and the deputies of the State Duma that the armed forces of the Russian Federation may in accordance with the said law of the RSFSR be employed for the resolution of internal problems only in the case of natural disasters, epidemics, epizootic disease, and major accidents jeopardizing the life and health of the population and requiring emergency-rescue and restoration work is not substantiated from this aspect either.

Conclusions

Thus an analysis of the acts which have become the subject of an investigation by the Constitutional Court permits the following conclusions:

1. In the situation that had taken shape on the territory of the Chechen Republic the president of the Russian Federation, as the guarantor of the Constitution of the Russian Federation and supreme commander in chief of the armed forces of the Russian Federation, was entitled to independently adopt all measures, including a decision to use the armed forces and other troops of the Russian Federation on the territory of the Chechen Republic, in support of the protection of the population and the territorial integrity and sovereignty of the state. In addition, in such a situation the president of the Russian Federation is required to employ these measures

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and instruct the Government of the Russian Federation accordingly.

2. Edict No. 1833 of the president of the Russian Federation of 2 November 1993 "Basic Propositions of Military Doctrine of the Russian Federation" corresponds to the Constitution of the Russian Federation both in its substance and in terms of the jurisdiction of the president of the Russian Federation" (part two of Article 59 and clause "h" of Article 83 of the Constitution of the Russian Federation).

3. Edicts No. 2137 of 30 November 1994 "Measures To Restore Constitutional Legality and Law and Order on the Territory of the Chechen Republic" and No. 2266 of 9 December 1994 "Measures To Suppress the Activity of Illegal Armed Elements on the Territory of the Chechen Republic and in the Ossetian-Ingush Conflict Zone" of the president of the Russian Federation and Decree No. 1360 of the Government of the Russian Federation of 9 December 1994 **"Maintenance of the State Security and Territorial Integrity of the Russian Federation,** Legality, and the Rights and Liberties of the Citizens and the Disarmament of Illegal Armed Elements on the Territory of the Chechen Republic and Adjacent Regions of the North Caucasus" correspond to the Constitution of the Russian Federation in terms of the substance of the provisions incorporated in them (part two of Article 80 and clauses "e" and "f" of Article 114 of the Constitution of the Russian Federation), the form of the legislative instruments (part one of Article 90 and part one of Article 115 of the Constitution of the Russian Federation), and procedure of signing, adoption, and publication (Articles 90 and 115 of the Constitution of the Russian Federation).

The president and the Government of the Russian Federation were in compliance here with the principles of the separation of state power into legislative and executive and the delineation of competence between federal authorities established by the Constitution of the Russian Federation (Articles 80, 87, 110, and 114 of the Constitution of the Russian Federation) and also of the delineation of terms of reference and authority between organs of state power of the Russian Federation and the organs of power of components of the Russian Federation established by the Constitution of the Russian Federation and the Federal and other treaties on the delineation of terms of reference and authority (Articles 71 and 72 of the Constitution of the Russian Federation).

Thank you for your attention!

Budennovsk Hostage Drama Impact Depicted

954F2826A Moscow MOSKOVSKIYE NOVOSTI in Russian 18-25 Jun 95 No 42, p 5

[Article by Stepan Kiselev, under the "Power" heading: "Hostages of the Kremlin. The Tragic Events in Budennovsk Are Changing the Political Landscape of Russia"]

[FBIS Translated Text] The events that have come in the wake of the seizure of hostages by Chechen terrorists and the departure of the president of Russia for Halifax give grounds to suppose that in the upper echelons of power, a serious political crisis is brewing, comparable both in its nature and in its consequences only with the October crisis of 1993.

For the first time since the times of the rebellious Aleksandr Rutskoy, a political competitor to Boris Yeltsin has appeared, capable of taking his place. Prime Minister Viktor Chernomyrdin has today seized the initiative from Boris Yeltsin, and represents a real threat to his political longevity.

I will remind our readers in what sequence the events of the past days developed. Already a day after the hostage seizure, the State Duma placed the question of no confidence in the government on the agenda. That was its own kind of maximum program. The minimum program was the resignation of the power ministers. Here everyone understood that the resignation of the government was the political death of Chernomyrdin, and the resignation of the power ministers was a knockout blow to the president, who personally controlled these departments and who had personally appointed their bosses.

Without delay, Federal Security Service Chairman Sergey Stepashin and Minister of Internal Affairs Viktor Yerin fly to Budennovsk; neither the one nor the other personally enter into negotiations with the terrorists. At that same time in Moscow, the minister of defense makes a cynical announcement about the senselessness of negotiations and the necessity of storming the hospital.

It had become clear that storming the hospital was in the interests of the "power ministers": Without respect to the outcome of this operation, a chance had appeared for Yeltsin's ministers to avoid inevitable dismissal. In the case of a successful assault, both the parliamentarians and Russia as a whole would be shown the high professionalism of the special subdivisions who had freed the hostages with a minimum of losses: Victors are not judged. And in the event that the assault turned into a bloodbath, then a rising swell of murderous pogroms would spread throughout all of the North

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Caucasus, and it would draw into its orbit the Army and the citizen militias. Then a state of emergency would be declared, with the subsequent dissolution of the parliament and the transferal of emergency powers to the power ministries. About the December elections to the State Duma and the following presidential elections in this case, everyone would forget for a long time.

Early Saturday morning, a four-hour assault on the hospital begins, and following it, after a short break, a second. But neither a triumphal freeing of the hostages nor a bloody apocalypse is achieved. After midday, a hysterical message comes flying from Moscow over the television and radio airwaves: The Kremlin has not given the order for an assault. But toward evening, a refutation comes from Halifax: Boris Yeltsin, it turns out, back in Moscow gave the go-ahead to Viktor Yerin for the use of force, thus in advance giving his absolution in the event that many hostages died. The version of the vested interests of the power ministers in the assault receives the "highest confirmation."

And here, out into the political arena comes Viktor Chernomyrdin. Let us assess the unprecedented cynicism of the Kremlin policy: Almost three days later, only after the president's ministers have again demonstrated their impotence, having ended up with dozens of corpses and Cossack threats of murderous pogroms, the prime minister condescended to negotiations with Shamil Basayev—one of those whom he had previously repeatedly called gangsters unworthy of negotiations with the highest leadership of the country. Of course, the negotiations were necessary, but they should have been begun immediately, as soon as the commandos had advanced their conditions. In that case, no one would have suspected the prime minister of playing a dirty game, whose stakes were supreme power in Russia.

Chernomyrdin makes good use of the responsibilities of the president and his constitutional right to make decisions (in the absence of the president, I remind our readers, the Constitution stipulates the transfer of supreme powers into the hands of the prime minister.) On Sunday night, he contacts Shamil Basayev and accepts practically all of the conditions of the commandos. He is prepared to give the order to cease fire in Chechnya and to start peaceful negotiations with Dudayev's representatives. This is an historic event—for the first time, it is not Boris Yeltsin who is carrying out the presidential functions.

But Chernomyrdin has to make haste; he hurries the commandos for an answer: Very soon the president will return from Halifax, and the situation will slip from the prime minister's control. Protecting himself from possible accusations aimed in his direction and at the same time counting on relying upon public opinion in his conversation with the president, Viktor Chernomyrdin ventures upon an unprecedented and risk-free step: His negotiations with Shamil Basayev are broadcast over the entire country.

Chernomyrdin forces events. He creates a negotiations commission, which immediately flies to Groznyy, and on Sunday it becomes clear that the prime minister has not left the president any choice other than to acknowledge his manifest leadership. The president has no possibility to maneuver: He cannot abrogate the decision of his prime minister and again return to the strong-arm method of resolving the conflict, since this would certainly be followed by an explosion of public outrage of such force that even the theoretically impossible "impeachment" would become possible.

But the "power ministers," judging by everything, are attempting to break Viktor Chernomyrdin's game. In response to Basayev's communication that, despite the prime minister's assurances about a cease-fire, the hospital is still being shelled, Viktor Chernomyrdin retorts hotly, "That is a provocation; there are people there to make provocations...." And here the prime minister gives away a Kremlin secret: Supreme political power in Russia is split along the Chernomyrdin-Yeltsin line. Consequently, the peaceful inhabitants of Budennovsk have found themselves hostages not only to Basayev's commandos, but also to the Kremlin players, for whom human lives are a trump card in the struggle for power.

Today all the chances of triumphing in this game belong to Viktor Chernomyrdin, who to this day has contrived not to soil his tailcoat, neither with the shooting up of the White House nor with the shock therapy of the Russian economy nor with the destruction of Groznyy.

The prime minister created the party of bosses, Russia Is Our Home, thus casually transforming his competitors into the political homeless, and he formed that same power hierarchy controlling the regions that Boris Yeltsin had always dreamed of. Gas pipelines, it has turned out, bring Moscow's will to the notice of the regions better than any offices do. I have learned from absolutely reliable sources how Chernomyrdin convinced the governors to join his electoral bloc. First it was proposed to them that they reach this decision of their own accord; then, in the event of a refusal, from Gazprom or its subsidiary structures came notification on cutbacks in gas deliveries to the region, in connection, of course, with indebtedness. The pipeline as a means of state government is Chernomyrdin's discovery, worthy of its own chapter in the textbooks on political science.

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The only thing that Chernomyrdin lacked in his assault on the presidential seat was the trust of the electorate (his rating never exceeded 2 percent). The role of peacemaker in the Budennovsk tragedy could fill in this gap. There is, it is true, one circumstance that could greatly complicate Viktor Chernomyrdin's life—President Yeltsin. He, as is well known, will never give up victory without a fight. And a fight there will undoubtedly be. And a hostage of that fight will be all of Russia.

TV Hostage Crisis Coverage Quality Noted

954F2829A Moscow MOSKOVSKIYE NOVOSTI in Russian 18-25 Jun 95 No 42, p 5

[Article by Yuriy Bogomolov, under the "Assessment" rubric: "Peak Hours for Television"]

[FBIS Translated Text] It seems that we have realized not only what our special services are worth, but also what our television companies are worth.

The first day was indicative in this respect. "Vremya" and "Vesti" were still wavering as to whether the terrorists who had packed the local hospital with hundreds of women and children had anything to do with the Chechen commandos, while NTV was already broadcasting a video dossier on Shamil Basayev.

One could have assumed that the Russian TV program "Podrobnosti," seemingly intended for the elucidation of such events, would devote special attention to the bloody drama. But on 14 July, Nikolay Svanidze told about Princess Diana's visit to Moscow, and the next day he was in Halifax, whence he reported on which room the president would be staying in, and in which, General Korzhakov.

Sergey Dorenko's "Versii" in those days was closer to the topic. But the anchor did not so much inform and analyze as moralize. He lectured the special services leaders, the government, and the president, and he took his leave of us, the television viewers, in an extremely irritated and ugly frame of mind.

Nevertheless, neither "Podrobnosti" nor "Versii" held back on the weekend, when the drama in Budennovsk reached its culmination.

ORT embarked on a number of extraordinary measures. Starting on Saturday, it introduced a moratorium on entertainment programs, and it sharply increased the number of news bulletins.

Both of these measures have turned out to be dubious, at the least. The first because it resembled a announcement of prophylactic mourning, and a pretty strange one. The game show "Lucky Chance" and a French film with de Funes were deemed entertainment shows and pulled from the schedule. But the game show "What? Where? When?" went on the air, stuffed chock-full of self-advertisement on the part of its numerous sponsors.

As far as the second measure is concerned, the company's news ambitions were clearly not matched by its services' real capabilities. So what if ITA went on the air every blessed hour, playing the very same news five times, from bulletin to bulletin? To some extent, ORT's reputation was saved by the circumstance that on Sunday, Prime Minister Chernomyrdin, following the saboteur Basayev, bethought himself of such an important weapon as television. He conducted his telephone conversations with the latter in the presence of television cameras.

A remarkable backdrop for all of the television-telephone drama became the film shown on TV-6 about the release by the Israeli special services of 240 hostages. The film, which was aired in a change of scheduling, became its own kind of commentary for the most nonstate, and in this sense the most apolitical federal channel.

The television timed heat has brought to light the fact that our federal TV (with the exception, perhaps, of NTV) is still not free of the most stubborn Soviet reflex—to mix facts and one's attitude toward them, news and its commentary. And though it would seem that a lot of water had flowed under the bridge since the time when our television was a single and indivisible monolith, as soon as a crisis breaks out, everything goes back to its old rut. At such fatal moments as the drama in Budennovsk, a normal person more than anything needs facts without embellishment, without emotion, without sententiousness, and without lectures.

During the assault on the White House, we were shown the classiness of professional television work by CNN. Now it has been demonstrated by NTV.

Economic Issues

*Duma Leaders Deplore 'Too-Early' Privatization

954Q0250A Moscow DELOVOY MIR in Russian 29 Jun 95 p 5

[Article by Sergey Burkov, Vladimir Gusev and Viktor Ilyukhin, representatives of the committees of the State Duma for privatization, industry and security, under the rubric "Problem": "Early Privatization Will Do No Good"]

[FBIS Translated Text] *The transformation of state ownership in the defense complex of industry has taken a special direction. The pace is slower here, there is more*

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selectivity, the blocks of shares of stock in the possession, and at the disposal, of the state are more weighty. But it looks like these special features are quickly being leveled off...

There is a set of regulatory documents that defines the issue of stock and privatization in the defense complex, with a regard for its specific features. Those documents approved the lists of state enterprises and organizations of the defense sectors of industry (OOP) that are not subject to privatization in 1993-95;

—the state enterprises and organizations were delineated that are subject to privatization based on specially developed conceptual models;

—lists were compiled of enterprises and organizations being converted into joint-stock companies with the assignment of state ownership of controlling and non-controlling blocks of shares, or a "golden share";

—the rest of the enterprises and organizations in the defense sectors of industry are being privatized without restrictions.

The enterprises of the OOP were distributed as follows according to the terms of privatization as of 1 March 1995:

—430 enterprises not subject to privatization;

—privatization permitted for 15 enterprises under specially developed conceptual models;

—privatization permitted for 677 enterprises with a regard for restrictions in the form of the assignment of controlling and non-controlling blocks of shares to federal ownership, or in the form of the issue of a "golden share";

—privatization permitted for 634 enterprises on general grounds.

The performance of privatization for the remaining enterprises is entrusted to the State Property Committee of Russia with the issue of a "golden share."

The overwhelming majority of enterprises, of the three primary methods of privatization (issue of stock, commercial bidding and the buy-out of leased equipment), have selected conversion into open-type joint-stock companies.

The shares of 449 enterprises of the OOP had been placed for sale as of 1 March 1995 within the context of voucher or monetary auctions or by competitive investment bidding.

Buyers have demonstrated the greatest interest in the scientific organizations of Moscow and St. Petersburg, as well as a number of widely known industrial enterprises.

They include the Moscow Helicopter Plant imeni M.L. Mil AO [joint-stock company], Moscow; the Tekhnologiya NPO [Scientific-Production Association] AO, Moscow; the LOMO AO, St. Petersburg; the Presnesenskiy Machine-Building Plant AO, Moscow; and, the Radioelectronics Economics and Information NII [Scientific-Research Institute] AO, Moscow, among others.

A significant non-state sector has now been created in the sectors of the defense industry, the place of which in the structure of the defense sectors of industry can be determined from the following indicators:

Industry:	percent
number of enterprises	78
value of property	60
number of employees	70
overall product volume	68
production volume of arms and military hardware (VVT)	55
volume of civilian production (GP)	75
profits	72
debit indebtedness	62
credit indebtedness	59.5
Science:	
number of enterprises	67
value of property	27
number of employees	45

No appreciable monetary income has been received whatsoever as a result of privatization, despite the large amount of privatized state property in the defense sectors of industry. The budgets of the corresponding levels, according to preliminary estimates, received only about 10 billion rubles from the privatization of enterprises in the OOP over 1992-94. The privatized enterprises also did not obtain the necessary funds for development.

A session of the government of the Russian Federation that took place on 30 March 1995 reviewed the tasks of the second stage of privatization in 1995. Some of the results of that session are cause for serious concern.

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The draft documents considered at the session of the government of the Russian Federation propose the accelerated sale of a significant quantity of blocks of stock in privatized enterprises assigned to the government, including enterprises in the defense sectors of industry. The sale of the shares is proposed in large lots and in compressed time periods. That privatization strategy is explained by the necessity of providing receipts of 9.5 trillion rubles to the federal budget.

Planned are the early release from federal ownership and sale of no less than 25 percent (of the amount of authorized capital) of the shares of stock in enterprises of the military-industrial and nuclear-power complexes that do not engage in the development or production of arms and military hardware, or the reprocessing of radioactive and rare-earth elements. Blocks of stock in enterprises that produce constituent items and materials for the production of arms and military hardware (the electronics industry, for example), as well as enterprises that possess mobilization capacity, could be released from federal ownership and sold therein. The indicated enterprises or production lines could end up under the control of foreign investors or nations as a result. One consequence of this could be the loss of state control and management of a unified design, technological and production cycle for the creation of military hardware and armaments. There could also be problems in the restructuring of industry in the event a military threat arises. All of this would seriously weaken the national security of Russia.

The accelerated sale of stock in enterprises does not guarantee the receipt of the planned income by the federal budget, or investments by the enterprises. The proposed strategy of privatization will lead to a reduction in the sale price of the blocks of shares of enterprises in the priority sectors of the Russian economy. Taking into account the grave financial state of many of the enterprises in the OOP, large income from the sale of their stock should not be expected.

The possible consequences of the sale of blocks of stock assigned to the state in the key enterprises of the military-industrial complex and allied sectors should be studied in detail when formulating the conceptual model for the privatization of enterprises in the OOP, so that harm is not done to the strategic interests of Russia.

Taking into account the possible serious negative consequences of the proposed strategy of privatization for enterprises in the OOP, we feel it to be advisable to release from federal ownership and sell blocks of stock in these enterprises only provided that there is a positive finding by the State Defense Industrial Committee of the RF, the Ministry of Defense and the Federal Counterintelligence Service. The list of enterprises in the OOP whose shares are being offered for sale should be included in the State Program of Privatization, subject to approval as federal law by the Federation Assembly of the Russian Federation.

The State Defense Industry Committee of Russia, in accordance with government of the Russian Federation Decree No. 1399 of 19 December 1994, "Measures To Stabilize the Economic Situation of Enterprises and Organizations of the Defense Complex," is to complete a structural restructuring of the defense sectors of industry in the first half of 1995.

The composition of the reformulated structure of the OOP will include:

—unitary enterprises founded on the right of operational management (federal treasury enterprises);

—unitary enterprises founded on the right of business management, not subject to privatization;

—state scientific and scientific-production centers;

—joint-stock companies with controlling and non-controlling blocks of stock or a "golden share" assigned to the state;

—joint-stock companies, joint-stock industrial companies and financial-industrial groups with an agreement with the State Defense Industry Committee of Russia for collaboration in the production of arms and military hardware, salvaging, the fulfillment of mobilization tasks and other tasks assigned by the State Committee.

Another important task in reforming the OOP is the pursuit of a sophisticated policy of privatization. Such privatization should facilitate an influx of investment to the privatized enterprises, and a rise in the efficiency of those enterprises.

The privatization of the defense sectors should be founded on an appropriate legislative base. Requirements need to be formulated in particular to protect state and official secrets at privatized enterprises, and to define restrictions on the retrofitting of production lines, restrictions on foreign investors for the possession of shares in the enterprises of the OOP, and access to classified information. It is also essential to develop a mechanism for the efficient interaction of executive bodies with the privatized and non-privatized enterprises of the OOP.

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***Duma Deputy Urges Regional Autonomy in Economic Reform**

954Q0249A Moscow IZVESTIYA in Russian 8 Jul 95 p 4

[Article by State Duma Deputy Mark Goryachev: "Praise for the 'Black Market'—*The Regions Are the Last Hope of Our Economy*"]

[FBIS Translated Text] Conversations about the crisis in the Russian economy have become a commonplace today. Whereas two years ago the discussion concerned hunger or something like that, whereas two years ago humanitarian aid from the West was coming to Russia, today the destitute and impoverished Russia is breaking all records for the acquisition of the most expensive automobiles, things and foodstuffs from the most expensive firms in the world. And that is far from the preferential right of 3—5 percent of the population. Against a background of a catastrophic decline in production bordering on the deindustrialization of the country, against a background of a catastrophically empty budget, an overall rise in well-being is being observed, and is noticeable even to the untrained eye. Despite the relentless impoverishment of certain social groups of the population, the nation as a whole, as it were, is coming out of the crisis, although the crisis is continuing and deepening by all "paper" indicators.

What is actually happening in Russia?

The "black market" actually holds sway in Russia, with all of its minuses but also with all of the pluses of actual market relations. And I would risk saying that Russia is alive so far, despite predictions, namely thanks to the criminal but nonetheless productive everyday activity of the "black market." It is not subordinate to state laws, it ignores their existence or skillfully evades its obstacles, the more so as there is nothing more unreasonable or unnatural than our Russian laws. Take taxation. Who among normal people, in a normal country, could think up taxes that exceeds profits?... But here entirely serious theoretical economists think them up and approve them. And who could raise tariffs to 60 and even 120 percent, and that on goods that cannot be produced in the country at all?! How can anyone arrive at this? And how can it be fulfilled?

What does it prove?

And the fact is that there need not have been any crisis in Russia, if we had approached the question of creating law not from the standpoint of the distributive interests of the officials of the apparatus, but rather only from the standpoint of expediency, the growth of profits in society. And if the issue cannot be resolved on a global basis, at the level of the country, then we need to try and resolve it in parts—at the level of the regions. I want to stipulate that I am not calling for the division of Russia into regions; I only feel that it is essential to do everything possible in the local areas, especially what it is hard to do from the center.

The region is capable of everything or almost everything in Russia today, especially if the region possesses the status of a subject of the Federation. It is understood neither here nor abroad yet just how strong that status is, and how great the powers that the subjects of the Russian Federation are endowed with actually are.

The first and principal thing that should be done by the regional authorities of virtually all of the subjects of the Federation is to demand, in most categorical form, political guarantees of the stability of capital from the federal authorities. It is essential to see that the slogan "Get rich!" is heard virtually at the level of the government. They need to contrive to organize financial turnover in their regions in such a way, and provide such guarantees for bank capital, that it is advantageous for a businessman to keep his money in your banks. It is essential to arrange as simple a system as possible for the registration and checking of private firms.

They should strive at their own regional level to:

—remove all restrictions on the investment of private capital in the principal spheres of production;

—organize unrestricted buying and selling of land in their regions, in reality and not on the sly, as is being done. The restrictions on this issue only increase the opportunities for abuses.

One should not think that the regional level is too small for the resolution of such global tasks. A process of the formation of areas of economic experimentation on the territory of the regions—local proving grounds, able to try out the most effective local model for the real reformation of the economy—could, and clearly should, be the starting point for reforms. Everything should start with reform of the tax and banking systems; both of those reforms should moreover proceed in parallel with each other. This is essential so as to collect real taxes for the budget of the region, and to at last relatively stabilize its financial system and provide for its independence and freedom from the center.

But how will it be possible to fund the budget?

Here we are closing in on the most important element. There is an opportunity in this case to kill several birds with one stone: not only fund the budget, but also provide for the development of productive business and the opening up of new jobs. Exactly how? I have in mind that it is essential to achieve, by any means, a

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shift of the principal burden of taxation from legal to natural persons—that is, to collect the most important tax, income tax. All productive business effectively tries to free itself of taxes.

Business does not and will not pay taxes just the same. Better that they invest their profits in the development of production and the opening up of new jobs and, of course, the payment of hired workers. That is how they live, live and prosper, in a host of civilized countries. There is no need to restrict the wage fund from above, the more so as the region collects income taxes (90 percent of which stay in the region according to prevailing legislation) from those people. Everything must be set up in such a way that paying people more money is advantageous. A minimum wage, below which one cannot be paid, must of course be set.

This measure has a dual advantage—first politically, being extremely populist, and second economically, since it increases tax receipts to the budget.

But tax reform in and of itself, not supported by banking reform, will not solve the problems of the region. The "black market" is an extremely stable formation, and if the situation is not organized in such a way that it will be advantageous for a person to show his true income, and for the businessman to demonstrate how much he pays people, then all calculations are at risk of falling flat.

It is namely banking reform that could create a powerful lever for legal accumulation. That lever is the credit and financial system accepted around the world, using a system of non-cash transactions not only and not so much among enterprises, but primarily using non-cash transactions with the public with the aid of credit cards or plastic money. This must be done in such a way that each individual person can feel the benefit to himself from using the capabilities of the credit and financial system. This is, first and foremost, long-term dedicated credit, which should be offered only in the form of services: deferred payments for apartments and houses, installment payments for the acquisition of automobiles and furniture, medical and social insurance, payments for schooling. The development of the services sphere, which will in this case immediately become of vital necessity, will in turn create new jobs and provide funding for the budget. The working person will obtain normal living conditions for himself and his family, and will have something to maintain them with, right from the start of his labor activity. This will inevitably tell both on his social outlook and on his work. He could not only acquire anything, after all, but could also lose everything. The opportunities are the sole truly operating lever able to affect the psychology of the individual in democratic society.

In order to obtain that credit, one must naturally prove to the bank an income sufficient to service that credit, so that each citizen has the maximum vested interest in legal accumulation and the legal, centralized use of money.

A highly important consequence of the institution of a multifunctional system of non-cash transactions will be a reduction (even as far as the elimination) in the amount of the uncontrolled money supply (the "black tax"). Because even if a worker is paid "under the table" out of habit in some places at first, the worker will still take it to the bank; he needs a large legal income, otherwise he will not get any credit. That means that the money will still be subjected to tax and will begin to work for society. A retiree and an invalid, with the conversion of the pension to a system of non-cash transactions, will finally not have to wait several months for the indexing of their pensions, but will rather receive it instantly in their bank account. The humiliating lines for pensions in which old and ill people spend hours will also disappear at once.

The new credit and financial system has to be "sold" in the literal sense of the word, with the organization of a strong advertising campaign in the local mass media; that is entirely within the capabilities of the regional authorities. But significant amounts of money will naturally also have to be invested in the organization of the new financial and credit system, money that will be recouped a hundred times over. But it has to be found and invested.

"Here they come again," they will say to me. "Again they need money. Where can we get it?" And perhaps they will not believe that the regional authorities cannot be bothered by exactly that. It is not only prestigious, but profitable to invest money in such a project. The banks earn a lot of money with it; turnover is greatly expanded, a colossal quantity of private clients is obtained, the publicity will make them partners of the government and, ultimately, they will be left the only ones servicing the given region.

The impact of the implementation of such a project in a region will necessarily be:

1. relative financial stability (the achievement of absolute stability, of course, is possible only on the scale of the country);

2. dependable and guaranteed payments to the regional budget;

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3. the revival of production and the opening up of new jobs;

4. the removal of social tensions;

5. an improvement in the criminal situation owing to the elimination of the "black tax";

6. an assurance of economic independence and true freedom from the center.

There obviously are not and cannot be any losers in this process. Only one who does not participate in it will end up a loser, and the maximum gain will come to those who start early and act most vigorously. The accomplishment of cardinal changes in individual regions could be an impetus for true reforms by the federal authorities. And ensuring the ubiquitous and irreversible development of this process would mean ensuring the inclusion of Russia in the world community in deed and not just in word, and not as a raw-materials appendage of the developed countries but as an independent and strong partner of them.

I am profoundly convinced that the rapid and successful fulfillment of this program at the regional level is entirely possible and, moreover, is all that can ensure the restoration of the people's trust in the authorities, not on the basis of some mystical faith but on the basis of actual improvements in the life of all segments of the population.

***Directives Granting Loans To Help Ailing Enterprises**

954E1174B Moscow ROSSIYSKAYA GAZETA in Russian 12 Jul 95 p 6

[Text of Directives of the Government of the Russian Federation]

[FBIS Translated Text] **Directive No 886-r of the Government of the Russian Federation, dated 29 June 1995, city of Moscow**

For the purpose of rendering state aid to the machine building enterprises of Kostroma Oblast in carrying out structural reorganization of production, the sum of 24 billion rubles [R] is to be appropriated from the federal budget for these enterprises in 1995, including R8 billion for the EKSKO Joint-Stock Company, R8 billion for the Kostroma Motordetal [Motor Part] Plant Open-Type Joint-Stock Company, R7 billion for the Kostroma Strommashina [possibly Construction Machinery] Plant Open-Type Joint-Stock Company, and R1 billion to the Metallist Joint-Stock Society for the period until 1 December 1995 with payment of interest in the amount of one half of the effective discount rate of the Bank of Russia.

[Signed] V. Chernomyrdin, chairman of the Government of the Russian Federation

Directive No 887-r of the Government of the Russian Federation, dated 29 June 1995, city of Moscow

In the second quarter of 1995 a loan of R25 billion from the state budget for the period until 1 November 1995 is to be allocated to the Novovyatskiy Machine Plant state enterprise to carry out structural reorganization of production with payment of interest in the amount of one half of the effective discount rate of the Bank of Russia.

[Signed] V. Chernomyrdin, chairman of the Government of the Russian Federation

Directive No 889-r of the Government of the Russian Federation, dated 29 June 1995, city of Moscow

For the purpose of ensuring structural reorganization of the base of the construction industry in connection with construction of housing for refugees from regions with exceptional situations, military servicemen of relocated units, persons discharged into the reserve, and members of their families, federal budget capital in the amount of R20 billion is to be allocated to the Konsortsium Universalstroy [Universal Construction] Open-Type Joint-Stock Company under a guarantee from the Volgograd Commercial Agroindustrial Bank for the period until 1 December 1995 on a repayment basis figuring interest at one-half of the effective discount rate of the Bank of Russia.

[Signed] V. Chernomyrdin, chairman of the Government of the Russian Federation

***Center, Region Foreign Economic Links Coordination Urged**

954E1174C Moscow KOMMERSANT DAILY in Russian 29 Jun 95 p 3

[Article by Konstantin Levin: "Relations of the Center and the Regions Have Reached a State of Unstable Equilibrium"]

[FBIS Translated Text] **Delineation of foreign economic powers has always been a subject of bargaining between federal organs and the state structures of the Federation subjects. This problem became most critical in the age of the parade of sovereignties in the early 1990s. In recent times the regions have somewhat restricted their demands on the center. In response, the federal departments have begun more actively assisting the regions in realizing their export potential. Yesterday's collegium of the MVES [Ministry of Foreign Economic Relations], which was devoted to the problems of coordinating the foreign**

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economic activity of the Federation subjects, was in the flow of recent conciliatory trends, but the struggle for foreign economic powers may heat up again in the future, especially because the Council of the Federation has already shown its dissatisfaction with the infringement of the rights of regions allowed in the draft law on regulation of foreign trade activity.

Until the beginning of this year, the Russian model of state regulation of foreign economic activity contained two mutually exclusive approaches: on the one hand were the general rules of the game, and on the other was continued granting of various privileges to participants in foreign economic activity. These contradictions were successfully used not only by various nonprofit organizations like the National Sports Foundation but also by the regions which had advanced further along the path of sovereignty, in particular Tatarstan. When signing the Russo-Tatar agreement on division of governmental powers and objects of administration, Kazan also got an expansion of its rights in foreign trade. The example proved inspiring. The Sibirskoye Soglasheniye [Siberian Pact] inter-regional association has been especially persistent in demanding that the central authorities grant it customs privileges, substantiating the need for them by reference to high transportation rates. As for the Volga republics, they preferred an even more radical path of affirming their own independence from Moscow: concluding foreign economic agreements with foreign states. As was emphasized at the MVES collegium, such a thing is unacceptable if for no other reason than that it contradicts the precepts of international law: republics within Russia are not recognized as subjects of international relations and their territory is part of the all-Russian customs territory.

It is not accidental that only former socialist states were willing to sign agreements with the Volga republics. The doubtful international legal status of the republics within Russia made itself known at the very first attempts to establish relations with the West on an interstate level.

In recent times, however, the regions have retreated slightly from their radical position; this was influenced, among other things, by the abolition of regional quotas on the export of strategic raw materials. Moscow once again demonstrated who is primary in the area of state regulation of foreign economic activity. As the MVES collegium stated, the struggle for division of powers has been replaced today by compromises that enable the regions, with help from federal departments (primarily the MVES), to expand their export potential. The subjects of the Federation received the possibility of assigning their own representatives to Russian trade offices. Yakutia, Buryatia, Tatarstan, and Bashkiria have exercised this right. Representatives of these republics have been sent to trade offices in Belgium, Great Britain, Czechia, the United States, and Austria. There is another possibility of protecting the trade interests of the Russian republics and regions abroad—opening their own offices—but this option will suit Moscow only if the regional offices have the status of conventional legal persons, not non-state organs of the federal level. The center is also ready to share foreign credits, which at present circulate mainly in Moscow and hardly reach the regions at all. Whether this good intention is carried out depends not least of all on the appearance of a reliable banking infrastructure in the periphery.

While the normative base is being built, the truce between the center and the regions will last, but as soon as laws on SEZ's [free economic zones] and division of output are adopted there will again be a subject for bargaining. As we know, there are no perfect scenarios, but the all-Russian model of regulation of foreign economic activity can be based on two evident principles: the interests of the Federation should be defended by the law on state regulation of foreign economic activity, while the interests of the regions should be protected by the law on free economic zones. It is true that adoption of a federal law on SEZ's will only become possible after the Constitutional Court removes the contradiction between the draft law that envisions the creation of domestic customs boundaries within Russia and the Constitution, which directly precludes this option.

*Antimonopoly Chairman Bochin on Problems for Committee

954E1174D Moscow KOMMERSANT DAILY in Russian 27 Jun 95 p 3

[Article by Sergey Slyusarenko: "This Work Is Dangerous and Difficult—Visit of the GKAP Chairman to St. Petersburg"]

[FBIS Translated Text] **For the first time since the State Committee on Antimonopoly Policy and Support of New Economic Structures [GKAP], or briefly the Antimonopoly Committee, was started five years ago, its chairman Leonid Bochin has visited St. Petersburg. His three-day visit took place at the end of last week. Defining the reasons for the visit, Bochin referred to an opening that had finally occurred in his work schedule and his ardent desire to familiarize himself with the Baltika Beer Brewery, the St. Petersburg market flagship, and the LOMO [Leningrad Optical-Mechanical Association], a converted enterprise that is still an outsider.**

Leonid Bochin's visit to the second Russian capital fell during troubled days for the head of the GKAP. Two

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weeks earlier the presidential edict entitled "The State Committee of the Russian Federation on Support and Development of Small Entrepreneurship" essentially deprived the Antimonopoly Committee of all its most promising—on an administrative level—lines of work, including such financially attractive areas as support of entrepreneurship related to the activity of the system of numerous foundations. Leonid Bochin took this unpleasant event philosophically. In conversation with the KOMMERSANT reporter he stated that he follows the principle of the wise tailor: "Before cutting you have to anticipate the consequences." As the GKAP head acknowledged, however, "Some people do not share this approach, considering me not radical enough as a reformer."

Leonid Bochin is quite skeptical of the potential of the new state committee because during work at the GKAP he came to understand that the main difficulty is "the qualifications of personnel from the standpoint of understanding the essence of entrepreneurial activity." Therefore, the idea of forming a special committee to support small entrepreneurship is, from his point of view, very doubtful because "small entrepreneurship needs considered support and the formation of a competitive environment, which is actually what we have already been working on for a long time."

The chairman of the Antimonopoly Committee is equally guarded in his attitude toward the existence of two independent antimonopoly administrations in St. Petersburg and the oblast. In Moscow, incidentally, the city and oblast administrations were merged by Bochin's order: "The commodity market is unified, and in the future, obviously, St. Petersburg and Leningrad Oblast will also have a single antimonopoly structure."

The financial problems of the antimonopoly department look very gloomy in Leonid Bochin's interpretation. He says that there is not enough money for wages or for elementary protection of employees. It is true that the head of the committee did not deny that the Antimonopoly Committee has a separate subheading in the federal budget, but Bochin does not console himself with illusions: "We have to fight hard for that subheading because the deputies will remember much and say much."

What does this mean? The chairman of the Antimonopoly Committee apparently is referring primarily to the Law on Advertising, recently adopted by the State Duma in its third reading, which has become notorious. As is his habit, the GKAP head angrily throws back any criticism, stating that it was precisely at the initiative of his committee (which, however, under existing law has no powers to monitor advertising) and not at all of the Ministry of Finance and the Central Bank, that "the idea of banning the circulation of substitute securities on the Russian market was formed."

At the same time Leonid Bochin gave it to journalists too, noting that it is not so nice to survive exclusively at the expense of the gullible reader. In Moscow the GKAP head's relations with the press have not shaped up well, and it is not quite clear why he started making them worse with St. Petersburg journalists too.

Leonid Bochin's view on the work of his department is interesting. In his opinion, the most complex law which GKAP must execute is the Law on the Protection of Consumer Rights. The picture drawn by Bochin made the blood run cold, suggesting analogies with the South Bronx or Sao Paulo, Brazil: GKAP employees are often threatened by unscrupulous businessmen, their children are kidnapped, their apartments set on fire, and they are shot down in the entryways to their buildings. After this came a statement which under any other conditions would have been shocking but now did not seem strange. According to Bochin, one of the administrations of the FSB [Federal Security Service] has the "direct assignment" of ensuring the security of the antimonopoly organs. The GKAP is now, its director acknowledged, preparing to try to get legislation so that it is also protected by the MVD [Ministry of Internal Affairs].

So who is the most dangerous monopolist in the Russian market? Leonid Bochin's answer was conventional: electric power, rail transportation, and communications services.

Now some news: Leonid Bochin was left with various impressions from his inspection trips to the Baltika brewery and LOMO. He was sincerely delighted at the brewing business (the volume of production, market strategy, stable demand, and modern technologies) and pondered sadly the fate of LOMO, the former giant of the military-industrial complex. Judging by a number of outward signs, however, the civilian side of economic life still attracts the committee chairman more.

Leonid Bochin assessed the results of his unexpected visit as "good," which greatly surprised both journalists and city leaders. They already knew about LOMO's difficulties, to say nothing of the output of the Baltika brewery, but as for what will follow the visit by the head of the GKAP, that remained unclear.

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***Official Views First Quarter Foreign Investment Volume**

954F2760A Moscow SEGODNYA in Russian 5 Jul 95 p 2

[Article by E. Murtazayev: "Volume of Direct Foreign Investments Remains Clearly Inadequate While 'Portfolio' Investments Generate Growing Interest"]

[FBIS Translated Text] Sergey Tsyplakov, head of the Department of International Cooperation of the Government of the Russian Federation, declared in an interview with a SEGODNYA correspondent that the volume of direct foreign investments in the Russian economy has so far remained clearly inadequate. According to his data the volume of direct foreign investments in the Russian economy totaled $229 million, which is practically 25 percent less than the indices in the fourth quarter of 1994.

Among the reasons for such small volumes of foreign investment, the participants of the fourth session of the Consultative Council on Foreign Investments listed the continuing apprehensions concerning stability of the political situation, instability and complexity of the tax system, and the "inadequately elaborated" legislative base. Nevertheless, in the opinion of Mr. Tsyplakov, foreign investors view the Russian market as highly promising and are prepared to make large-scale financial investments.

According to Mr. Tsyplakov the most recent measures taken by the government, which were reported by Prime Minister Viktor Chernomyrdin in a speech at a session of the Consultative Council, will promote that process. They include newly introduced versions of the laws on foreign investments, on special economic zones, as well as customs privileges for foreign companies making capital investments in the Russian economy in amounts exceeding $100 million.

Mr. Tsyplakov attaches particular significance to the law on division of production, adopted by the State Duma, which, in the view of the head of the department, will create conditions for realization of a number of major projects in the fuel and energy branch (Sakhalin-1, Sakhalin-2, Timano-Pechorsk Project). In that connection, particular interest is presented by the prediction of the investment dynamics made by the Ministry of Economy of the Russian Federation. In accordance with that document, Russia might receive up to $5-5.5 billion in direct investments in 1996 which is triple the volume this year.

According to Mr. Tsyplakov, foreign investments are of particular importance for Russia under conditions of low domestic investment activity and a weakening significance of the government as the main investor, but Mr. Tsyplakov thinks that the government must preserve control over foreign investments in the banking and insurance sectors, as well as in the defense and raw material branches of the economy.

Mr. Tsyplakov reported that representatives of foreign companies have shown great interest in portfolio investments in the Russian economy. Let us recall that somewhat earlier, Anatoliy Chubays, the first vice premier of the government, declared that Russia "is on the threshold of a new boom in portfolio investments," substantiating his conclusion by the increase in investments in Russian securities. In March the overall volume of portfolio investments amounted to $40 million, whereas by May it was already $200 million. The hopes of the vice premier are linked to a great degree with the monetary stage of privatization which presumes open sale of the state block of shares of the most attractive Russian enterprises.

***Directive on Retaining State Shares in Gas Industry Enterprises**

954E1174A Moscow ROSSIYSKAYA GAZETA in Russian 12 Jul 95 p 5

["Text" of Directive of the Government of the Russian Federation]

[FBIS Translated Text] Directive No 907-R of the Government of the Russian Federation, dated 29 June 1995, city of Moscow

1. The proposal of the Russian Federation State Committee on the Administration of State Property and the RF Ministry of Fuel and Energy to hold the following in Federal ownership for 3 years is adopted:

—25.5 percent of the shares of common stock of the joint-stock companies formed in conformity with Edict No 1559 of the president of the Russian Federation dated 8 December 1992 ("Sobraniye aktov Prezidenta i Pravitelstva Rossiyskoy Federatsii," 1993, No 25, p 2234) on the basis of republic, kray, and oblast enterprises of the gas industry;

—51 percent of the shares of common stock of the Rosgazifikatsiya [Russian Gasification] Open-Type Joint-Stock Company.

2. The RF State Committee on the Administration of State Property is to make provision for sale in the established manner of shares of stock in the companies indicated in Point 1 of the present directive that are not held in Federal ownership,

[Signed] V. Chernomyrdin, chairman of the RF Government

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***Railway Ministry Performance Report to Government**

954E1177A Moscow GUDOK in Russian 16 Jun 95 p 1

[Report by Minister of Railways G. Fadeyev at 15 June government meeting: "The Locomotive of Economic Reforms"]

[FBIS Translated Text] ***The locomotive of economic reforms—this was the descriptive assessment of rail transport work in the country which O. Soskovets made yesterday at the government meeting which heard the report of the Russian Federation's Ministry of Railways.***

Members of the MPS [Ministry of Railways] collegium and managers of the largest railroads took part in the work of the government meeting. After opening the meeting, O. Soskovets, first deputy chairman of the government, gave the floor to RF Minister of Railways G. Fadeyev for his report.

In his report, the minister dwelled on fundamental questions related to the sector's work, namely:

—developing an efficient and reliable system for managing the sector;

—forecasting economic conditions and obtaining steady sources of financing for the functioning and development of rail transport;

—determining the directions for improving the material and technical base; and

—creating social stability in labor collectives.

In performing these tasks, the necessary conditions are created for realization of the program "The Reforms and Development of the Russian Economy in the 1995-1997 Period," the minister said. Today the Ministry of Railways system is a multipurpose and well coordinated economic-production organism in which about 6 percent of the state's fixed capital is concentrated and which employs over 2 million people. As a basic transportation element, the railroads handle over 75 percent of the freight turnover and about half of the passenger turnover in the country's transportation complex. The system of management developed during the course of reforms, which actively combines the principles of centralized functions and enterprises' economic independence, is not causing any substantial irregularities today. Over the years of reform, up to 8 percent of the transport volume has been redistributed to the railroads, compared with other forms of transportation.

The federal railway transport system has the full support of all regions of the Russian Federation, without exception, the speaker noted.

Then he said that the government has confirmed the federal status of rail transport in the draft law "On railroad transport" introduced in the State Duma. There is no question that retaining the form of ownership and management structure for railroad transport does not mean temporary cessation of economic relationships; they are changing, adapting to the tactics and strategy of the reforms being conducted, though the main principle—efficient management of the sector—is being observed at the same time.

The next step in the legal development of the fundamentals of rail transport activity and the principles of relationships with freight owners will be taken in the Railroad Regulations now under consideration. Their legal status has been enhanced by the draft law "On Railroad Transport." They will have the force of law.

In this connection, I want to emphasize that mutual and equal responsibility of entities engaged in economic activity under market conditions should not only be maintained but enhanced, the minister continued. We support only this approach. This should be the chief principle in all relationships.

Adoption of the new regulations will close the legal gap in relations between the railroads and the users of rail transport. It has a high degree of readiness, it has been coordinated with 23 ministries and departments, and final constructive work will enable it to be adopted in the near future.

Another no less important task is creation of the economic conditions needed for the sector to function steadily. We are resolving this problem in several directions. Under the conditions of the recession in industrial production and substantial reduction of transport volume, we are compensating for the sector's decreased income by adjusting production costs to the levels and conditions of the work. The railroads' activity is being actively diversified by stressing those areas which bring in additional revenue for the treasury.

Today all railroads are the founders of powerful commercial structures, including commercial banks and insurance companies oriented toward service for the sector and our subcontractors. At the same time, additional revenue is targeted for financing priority tasks. For example, 30 percent of the requirements for realizing the safety program are financed with the income from passenger insurance.

Steps are being taken to reduce the costs of production. The entire railroad network has been classified, and un-

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promising stations and individual lines have been identified. Some of them have been shifted to operate only during the day and some are being closed. Resource-saving technologies are being introduced. Realization of the sector's program made it possible last year to reduce operating expenditures by more than 500 billion rubles [R]; this year they will be reduced by another R1.8 trillion.

We consider interaction with the basic sectors to reduce costs and improve settlements to be very important. The general agreement between the Ministry of Railways and the basic sectors has become the foundation for subsequent regional agreements and price contracts between the railroads and supplier enterprises, Gennadiy Matveyevich said.

As a result of the work that was accomplished, national economy costs were reduced by more than R1 trillion over the past year, but under the influence of stabilization of prices for the output consumed, railroad transport's operating expenses were reduced by more than R400 billion, and this in turn made it possible to hold back an increase in transportation rates.

We have been stepping up this work this year. A comprehensive plan for joint actions by 10 ministries and departments has been put together. The plan's realization makes it possible for us to clear away the avalanches of indebtedness, coordinate pricing policy and deliveries of output, and stabilize the level of production. In 4 months this year, the sum of R8 trillion has been credited with enterprises in the basic sectors through repayment of incurred debt by the railroads and the ministry.

All the same, the work is proceeding with difficulty. Chronic insolvency of enterprises of the Mintopenergo, Roskommetallurgiya [Ministry of Fuel and Energy, RF Committee on Metallurgy], and individual budgetary enterprises presents a continuing dilemma for railroad transport—either not to carry their output, to look for other sales markets, or to take their output in payment and sell it ourselves. We are being forced to choose the second alternative.

Strong pressure to provide transportation without payment is absolutely unacceptable. As of today, the coal industry alone owes R1 trillion for transport service, and the debt is not being reduced.

I think the government should rule out any opportunity for prosperity to be gained at the expense of others. The sides should come to an agreement themselves, taking into account the interests of all participants in the negotiations, the minister said.

The General Agreement on Interaction Between the Ministry of Railways and Components of the Russian Federation which was adopted on 1 February 1995 is a fundamentally new approach in relations between a federal organ of executive authority and federation components taking part harmoniously in market relationships. Based on this agreement, the railroads have concluded contracts with federation components where specific relationships with regional budgets and a tax and rate policy are being established and joint investment plans and other matters are being determined.

The report noted that federal railroad transport has strengthened its relationships in the market space both with the basic sectors and federation components by making them more predictable and considerate.

The next direction in shaping the economic conditions needed for railroad transport activity is adapting the tariff system to the market's changing requirements and organizing a level that is economically justified.

The ministry and the railroads, within the framework of the rights granted to them, are conducting a flexible tariff policy aimed at attracting additional shipments, which has enabled us not only to stabilize transport service this year but to increase it on individual routes for certain groups of freight. Thus the shipment of chemical and mineral fertilizers, ore and metallurgical raw material, and ferrous metals has been increased substantially. The volume of shipments from the Ural region, the Kuzbass, Yakutia, and a number of oblasts has been increased. Reduced tariffs are in effect today to carry freight to the Far East, Sakhalin, Chechnya, and Kaliningrad Oblast.

Reduced rates have been established for transporting containers, household effects, mineral fertilizers, petroleum products, and hydrocarbons in shippers' own tank cars, for freight on direct shipping routes, and so forth.

Because the transportation component accounts for 15 to 60 percent of the final price of many shipments and makes them noncompetitive, especially over long distances, the ministry has developed differentiated tariffs, taking into account the value of the freight and the proportion of the transportation component in the product's final price, and has submitted them to the Ministry of Economics with a request to introduce them on 1 July 1995. The minister has appealed to the government to support the railroad employees' proposal.

At the same time, he pointed out, the sector is continuing its search for ways to reduce the general level of freight tariffs, and the following are aimed at this:

—pricing agreements between the basic sectors to hold back prices on output being delivered by the sector;

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—agreements with the regions to reduce the unprofitability of suburban passenger services;
—indexing prices for long distances; and
—reducing the railroads' own costs.

The steps taken last year and this year have made it possible to lower the overall level of tariff indexing. From May 1994 to April 1995, the cumulative index of freight tariffs accounted for 2.66 times as much and the index of wholesale prices in industry came to 3.65 times as much (output for the Ministry of Railways accounted for 3.22 times as much). The price of reducing transportation costs was R1.4 trillion in April alone!

At the same-time, G. Fadeyev pointed out with concern that sharply reduced state support in allocating funds from the budget (from 21 percent of the earnings received by the railroads in 1991 to 2 percent this year) is having a very severe effect on the level of freight tariffs, as well as the increased fiscal load of payments to the budget, from 6.2 to 25 percent; that is, there have been radical changes in railroad transport's relationships with the budget over the last four years. It has been transformed from a budget-financing sector into a budget donor.

Further, the fact that profitable passenger services have become unprofitable because the tariff level has been held back has had a tremendous influence on the level of freight tariffs. Last year the financial losses added up to R3.5 trillion, and in four months this year they totaled R2.7 trillion, reaching 20 percent in the freight tariffs. (At present, only 31.4 percent of the expenditures for passenger service as a whole and 39.8 percent of expenses for long distance services are being covered.)

Attempts to bring the rates for long-distance passenger service up to the level of the production cost for these services are not producing significant results, since indexing is lagging behind the level required; that is, the pressure on freight tariffs (by passenger tariffs) is practically not being reduced.

I believe that in this situation the Ministry of Finance, the Ministry of Economics, and the government as a whole should make a decision enabling us to remove the unnatural function of public social protection from freight tariffs, thereby creating the conditions to lower them, the minister said.

There are two alternatives here: either passenger rates are maintained at a low level and railroad transport is allocated the subsidies needed to cover its losses, or long distance passenger rates are gradually brought down to a break-even level in the 1995-1996 period. In order to bring about a basic decrease in the level of freight tariffs at the same time, budgetary support must be increased to finance the purchase of passenger rolling stock. (Funds have been allocated to purchase 130 cars this year, whereas 2,000 are needed.)

Moreover, a decision should be made on bringing the railroads into the wholesale market for electric power. We have all the coordination and authorizations needed for this—we just need to speed up the decision. When our enterprises are brought into the wholesale market for electric power, the rates for railroads' electricity will be reduced, which in turn will lower the tariffs for transport service and move us away from the uncontrolled regional approach to pricing.

These steps will enable us to lower the level of tariffs substantially and create more favorable conditions for Russian commodity producers to increase the level of production and compensate for budgetary losses.

Gennadiy Matveyevich asked the government to instruct economic departments to take these proposals into account in making up the budget for next year.

He said the third priority task which the sector has undertaken is creating the necessary conditions to renovate and develop the sector's physical base, primarily by organizing the domestic production of rolling stock and introducing technologies for rolling stock repair to take the place of those being imported. In order to realize the strategy adopted, special purpose federal programs have been drafted by the ministry jointly with industrial enterprises. Three of them—to develop and improve the quality of suburban passenger service, improve railroad traffic safety, and develop locomotive manufacturing in Russia—have been approved by the government, but development of railroad passenger and freight car manufacturing is in the coordination stage.

The objective of these programs is to organize the output of electric locomotives for passenger service, to organize the production of comfortable domestic railroad passenger cars and electric trains, and to discontinue import purchases. The first results of our joint efforts with machinebuilding personnel were achieved at the Demikhovo Electric Train Plant in suburban Moscow. Last year we received nine electric trains, and this year it is possible that 36 will be produced!

However, the minister noted in his report that some slippage in realizing the program has begun this year because a substantial lack of funds were allocated for this purpose from the Roskommash [RF Committee on Machinebuilding] budget. For this reason, the Ministry of Railways is asking again that this problem be reviewed and that development of the Demikhovo plant be supported.

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A federal program that has already been approved—"Development of Locomotive Manufacturing in Russia," to create the capacities and develop the production of traction rolling stock and associated equipment, as well as electrical equipment, at enterprises in the Russian Federation—also needs to be adjusted. Funds for this program were not allocated this year because of the difficult budgetary situation.

Railroad passenger cars are another problem. Delivery of more than 2,000 passenger cars annually will be required to bring the passenger car fleet up to date each year. Before 1994, the renovation was achieved largely through imports. Taking into account that imports have been practically discontinued, the Ministry of Railways, with participation by the Roskommash, has drafted the program "Development of Railroad Passenger Car Manufacturing in Russia." It was requested that the ministries concerned finish working on it in the near future, taking into account the need for cooperation with foreign firms, and submit it for the government's approval after stipulating that production of the new-generation passenger cars be begun no later than 1997.

So a reliable foundation is being created to maintain railroad transport's material and technical base, which is called upon to ensure high reliability and the quality of rail service needed.

The next problem raised in the report is inseparably linked with financing for the maintenance and renovation of the material and technical base: provision for train traffic safety. In 1992, the government approved the State Program To Improve Traffic Safety in Railroad Transport up to the Year 2000. It provides that railroad transport be equipped with the latest instruments and devices to prevent human error and provides for funds to be used for diagnostics involving rolling stock, tracks, and the catenary system, making it possible to eliminate the causes which lead to wrecks with severe consequences. Financing of work under the State Program is provided in full with railroad transport funds. This problem has been given priority attention, and when there are insufficient financial resources, it turns out to be of paramount importance. Some R21 billion was spent for this purpose in 1993, R122 billion was spent in 1994, and R213 billion has been allocated for this year. With all the financial difficulties, these sums are being sought out and used to provide for safety as a priority. The steps taken are supplemented by a system of preventive measures in transport which are being perfected continuously.

At the same time, Gennadiy Matveyevich noted, there is a problem which requires the government's support—common operation of the fleet of freight cars by all CIS and Baltic countries. The most important principle in operating the same fleet of cars—the required level of technical maintenance—is not being fulfilled. The technical condition of the freight car fleet is deteriorating because of lack of attention by the railroad administrations of the CIS and Baltic countries. For this reason, the ministry is proposing that they switch to operation of national fleets beginning on 1 January 1996. This will make it possible to improve the technical condition of the railroad car fleet and train traffic safety.

The radical changes in the country's economy have created a need for new approaches and principles in personnel work. Over the past three years, all supervisors in the sector—from members of the ministry collegium to the chiefs of railroads' services—have been certified and reapproved. Nearly 20 percent of the managers at different levels did not meet certification criteria. The work that was conducted enabled us to reinforce the sector's command personnel and increase personal responsibility for a state of affairs. Special attention is being given to personnel in large-scale occupations. The availability of a sectorial network for personnel training makes it possible to respond flexibly and promptly to sector requirements and to train personnel in advance for them.

Today we are practically the only sector which guarantees the graduates of VUZ's [higher educational institutions] and technical schools (there are 66 of them) work in railroad specializations and assigns them, the minister stressed. Over the past two years, the competition for railroad VUZ's and technical schools has increased three-fold, which provides grounds for viewing the future with confidence.

The next problem which is always at the center of attention is maintaining a normal social climate in labor collectives. We brought about a fundamental change in the sector's social policy at the beginning of 1992. The main feature of this policy is the creation of social guarantees for the sector's employees.

First of all, this meant a shift to the trilateral wage agreements, the main criteria for which were a strict system of indexing wages under inflationary conditions and a ban not only on a cutback but reduction of the volume of housing construction, as well as mass layoffs because of the decrease in transport volume. This difficult task was accomplished strictly within the framework of the law and within the limits of the funds which were earned by the sector itself. Our stability is accompanied by the coordinated work of ministry and railroad managers with the Independent Trade Union Central Committee and railroad committees.

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In concluding his report, the minister assured the government that it can rely in its activity on the sector's steady operation and on its personnel.

* * *

A. Zaytsev, chief of the October Railroad; I. Paristyy, chief of the Moscow Railroad; S. Babayev, chief of the Baykal-Amur Railroad; and officials of ministries and departments spoke at the government meeting in discussions on the report.

In concluding the session, O. Soskovets, the first deputy head of the government, gave a positive assessment of railroad transport's work, noting its stabilizing role in the state's economy, and characterized the system of managing the complex and multisectorial operations of Russia's steel mainlines which has taken shape as necessary for the conditions which exist in Russia.

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National Affairs

*Kuchma First Year in Office Assessed

954K0648A Kiev UKRAYINA MOLODA in Ukrainian 11 Jul 95 p 3

[Article by Dmytro Lykhoviy under the rubric "Politics Up Close": "Leonid Kuchma's 365 Days—Black and White: Today Marks Exactly One Year Since the Day Ukraine Was Notified of the Name of Its Second President"]

[FBIS Translated Excerpts] [passage omitted]

Kuchma's Plans and the People's Plans

A year ago, the abundant leaflets of Leonid Danylovych resoundingly stated: "One month will be enough for me to restore order in the country." Pardon me for a label, but this was "showing-off" which is customary in election campaigns. Only on the 93d day after his inauguration did the president utter that "the preparatory stage is coming to an end," and he was "switching to aggressive and resolute actions."

Moving on to the characterization of the "white" part of Leonid Kuchma's presidential practice, as mentioned in the headline, I will note that the "D-student" has quite a little bit to his credit. If we look at Leonid Danylovych's presidency from its inception, we will see among its initial assignments the official and market rates of the karbovanets coming closer together, foreign economic activities being liberalized, the budget deficit being reduced, the light-footed horse of inflation slowing down, and privatization and the Russian gas pipeline being unblocked. Looking at it now, we come to the conclusion that, to a degree, favorable results have been achieved on all of these scores (there is even some progress on the issues of "hopes born of ownership" and Russian energy resources).

Let us take a closer look at the global scale. Observers and participants in the process alike unequivocally count President Kuchma's consistent adherence to market reforms among his accomplishments in the economy, and in politics—delays in signing the one-sided Treaty of Friendship and Cooperation with Russia and its emasculation to a level that Ukraine needs. Likewise, a considerable advance of our country in the international arena, including the Council of Europe, and the lifting of the credit and investment blockade by international financial organizations associated with it are also extremely important. Mentioned among the weighty reproaches which usually end up on the other side of the scale are lobbying for the controversial FPG's [finance and industry groups] and the Sochi agreements on the Black Sea Fleet and Sevastopol which may be implemented only to the advantage of the Russian "strategic partner." Indeed, the going for the FPG's (especially for their taxation) is not as smooth as one would like. However, in this sense the president is justified by the fact that without the operation of FPG's it is impossible to overcome severed connections and a slump in production (more about it later). As far as the fleet is concerned, specialists estimate that, in return for Russia's loyalty, only the things which had been given up by Kravchuk over three years were confirmed; in the words of Secretary of the National Security Council Volodymyr Horbulin, at the end of the agreements there is a modest "colon," and it is yet to be seen the city of whose glory Sevastopol is going to be.

The program-report "Taking the Path of Radical Economic Reforms" which Leonid Kuchma made on 11 October of last year contained many addresses to which we were to take this path. Mr. Kuchma has so far been coping with the introduction of a vertical chain of command in the executive branch which "should penetrate all structures and levels of the state from the president to cities and villages," hacking away at the rock of Supreme Soviet's conservatism Stakhanov-style whereas many other problems still await a solution. They include the liberalization of the tax system, the implementation of radical institutional changes (the "bankrupt destructive policy of creeping destatization" is still around), the designation of priority sectors combined with the actual absence of support for them, delays in a radical land reform for various reasons, the growth of organized and non-organized crime and, most importantly, as we agree, the persistently low standard of living of the nation, the price problem, the embryonic stage of the development of arrangements for targeted assistance to the needy, a lack of reform in wages, etc. A relative stabilization of the financial system rests on the other side of the scale: As NBU [National Bank of Ukraine] Chairman Viktor Yushchenko testifies, inflation is now virtually under control and remains at the level of approximately 4.5 percent monthly. To be sure, Leonid Kuchma himself does not consider this to be a panacea and states that abruptly stopping the flywheel of inflation, which is one of the sources of credit for industry, worsens the indicators of a slump in production to some degree.

As it were, Kuchma promised to restore order in the country in one month rather than one year. Actually, nobody expected 365 days to suffice for a Ukraine headed by Leonid Kuchma to overcome the crisis. The political situation has calmed down, and the assessments and approaches of the president have become more balanced. Now he is talking about making the next year

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a year of stabilization and after that, if we are successful, approach the mode of economic growth.

On Your Mark, Gentlemen Opponents! Or Is It Gentlemen Oppositionists?

Having been elected president as an ex-prime minister and chairman of the Union of Industrialists and Entrepreneurs offering anti-Kravchuk (which at the time meant antistate) slogans, Kuchma was the cause of a paradox of sorts in Ukrainian politics. Having support from the left-wing bloc, as a potentially pro-USSR president, and from a considerable segment of the national reformist camp as a potential president-reformer, Leonid Danylovych by his initial actions in the high office has brought about a situation in which the left wing had not yet managed to become deeply disappointed in him whereas supporters of reforms had already begun to sympathize with him some. Therefore, at some point three months into the presidency "his majesty's opposition" became an almost surreal phenomenon (if we ignore the eternal "ultras" who are far removed from the Mariyinsky Palaces and Bankivska Streets). However, the situation whereby a cone rested on its apex for a while did not last long: No sooner had the president dwelled in depth on the interpretation of the proclaimed reform than the advocates of balanced administration and active social protection for the population immediately emerged on the flanks of the political community, and among the centrists of all schools, stripes, and sizes, islands of agreement and disagreement with particular pronouncements or steps toward economic and political changes appeared.

It is obviously worthwhile to dwell on such manifestations of "opponentism." Without claiming to embrace the boundless, I will give the thoughts of representatives of the right and somewhat left of center.

This is how Mykhaylo Horyn, chairman of the URP [Ukrainian Republican Party], commented on the first anniversary of Kuchma's tenure as the head of state for UKRAYINA MOLODA:

"The URP announced its opposition to the president and his team based on Kuchma's election platform and his inauguration speech. Statements by the president about orientation towards the Eurasian space and recognition of Russian as an official language were the most alarming. Has the president implemented any of these plans? Yes. The Interstate Economic Committee has been created which has tied us more closely to the CIS. The Treaty on the Joint Airspace Defense is a step toward establishing a military alliance with Russia which violates our 1990 declaration on non-affiliation with blocs. The zero option in mutual settlements for the property of the former USSR deprived Ukraine of a considerable proportion of the wealth of the empire generated by the efforts of the Ukrainian people. The first agreement on the division of property in accordance with which 16.37 percent belonged to Ukraine also involved the Black Sea Fleet which amounts to only 8 percent of the entire navy of the ex-USSR. Ukraine was thus to become the owner of the entire Black Sea Fleet and acquire about another 8 percent of other fleets of the former Union. The issue was not raised of Russia paying compensation for the labor of hundreds of thousands of Ukrainian political prisoners who developed the North and Siberia for 70 years, as a rule not being paid for their work. (Let us compare this to the position of Germany which is currently paying monetary damages to the citizens of Ukraine who were forcibly relocated to work [in Germany] during World War II). If we add to this fantastic debt the indebtedness of Russia for the transportation of energy resources across the territory of our state which Russia has failed to pay for (according to calculations by experts, this amounts at the very least to $3 billion for gas alone), the energy-induced debt of Ukraine to Russia will be offset hundreds of times over.

"However, I would not like to say that the one year of Mr. Kuchma's presidency has been strewn with unfavorable developments alone. The environment in which the president operates is difficult in the extreme. The objective is what matters in efforts to overcome difficulties. The objective has now been set. Only the accents are needed. Our opposition to the president notwithstanding, I would like to note his success in policies with regard to the Crimea (the return of the Autonomous Republic of Crimea into the judicial domain of Ukraine). The president also ensured the continuation of privatization processes which the Supreme Soviet had blocked at one point. The Law on Power and the Constitutional Treaty with the parliament should overcome the crisis of governance in the power structure. The international prestige of Ukraine has grown precisely in the last year; Western states have recognized the significance of Ukraine in stabilizing the political situation in Europe. Therefore, we are profoundly convinced that a clear-cut determination in domestic and foreign policy should produce the desired results."

The thoughts of Yuriy Zbitnev, a deputy chairman of the SDPU [Social-Democratic Party of Ukraine], on the first 365 days of Leonid Kuchma's presidency, were somewhat different. Actually, Zbitnev commented on the date in question for UKRAYINA MOLODA not quite in his capacity as an SDPU functionary. His party is headed by a member of the government, Minister of Justice Onopenko, and this forces the Social-Democrats to be loyal to the president. Mr. Zbitnev's position was rather that of a former adviser to Prime Minister Masol.

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"Kuchma has had very many tactical victories both in the international arena and in domestic policy. However, there are certain doubts about the steps of the president being strategically successful. The reform economic policy is already producing initial results: For example, the rate of inflation has been reduced. However, if we look at data from the Ministry of the Economy we will see that we have merely succeeded in reducing the rate of decline in production; there is no growth as such. There are some questions regarding the formation of the new government but I do see this: The president is now laying the emphasis on the deputy prime minister for the economic reform doing everything possible to increase production. If we have an opportunity to increase the gross domestic product through the growth of production and solve the problem of energy resources, this will give Ukraine a chance to secure some favorable results at least by the end of Kuchma's presidency.

"As far as the formation of the new government is concerned, I welcome the change in the industrial sector; I would also welcome the replacement of leaders at the Ministry of Agriculture. However, I will stress that a new stance on reforms in both industry and the agrarian sectors is the main point rather than simple personnel reassignments. In general, the resignation of the previous government boiled down to contradictions between Prime Minister Masol and Deputy Prime Minister Pynzenyk. Actually, the views of the newly appointed government on economic changes do not differ from those of the old one.

"I would like to note that the economic policy of Leonid Kuchma from the time of his first programmatic presentation before the Supreme Council and until the announcement about a course adjustment in Uzhgorod shows that the tactics of the president, and first of all of his entourage, are impulse-driven and unbalanced. This indicates a lack of either analysis or experience. On the whole, the state may suffer because of this.

"Kuchma is right in saying that we need to maintain at least the current relative stabilization and give the people an opportunity to work in peace. However, I think that it will be very difficult to ensure peace and stability in the fall: Wages will seem smaller still; other problems will also develop and prevent the government from working in a regular manner. Now that the Law on Power has been passed the government is becoming more homogeneous and it rests on the president rather than the prime minister. This is why the responsibility for the operation of the government devolves precisely on Kuchma. Yevhen Marchuk has reasons to worry about his future: There is a danger of him becoming a dependent political figure and a president's hostage, or being forced to go, just as his predecessor Masol."

Of course, the views of both experts are not the ultimate judgements, but one can see the grains of truth in them.

How Nice It Will Be If Something Starts Working

Thus, the first year of Leonid Kuchma's presidency became the first year of growth of a strong executive branch which has so far been blooming with good intentions. It has yet to vigorously bear fruit: The reductions in the rate of inflation and the deficit of the state budget to quotas which the IMF demands in exchange for loans is a pleasant phenomenon, albeit not a crucial one. As has already been noted, the monetary slowdown in inflation simultaneously slows down lending and hence the development of production (Kuchma decided to do something about it upon adjusting the course of reforms in Uzhgorod; however, according to some data, he changed his mind about pressuring monetarists following his conversations with German bankers). As Deputy Minister of the Economy Volodymyr Naumenko testifies, the truncated budget is not being implemented because state leaders champion the interests of certain groups and territories.

Of course, fluctuations in relations with the international monetary organizations do not hold a promise of extra millions of dollars for Ukraine, and a relaxation of monetary policy through the use of NBU loans threatens new leaps in prices. It is hard to say what the people would receive better: a slowdown in production or yet another increase in prices for anything and everything by whatever number of times. There are lots of contradictions in the proposals of Leonid Danylovych to strengthen the function of the state in the commercial banks Ukraine, Prominvestbank, and Ukrsotsbank, or nationalize them outright (for more details about all of this, see UKRAYINA MOLODA, No. 48 for 30 June).

As a study of Leonid Kuchma's programs and presentations reveals, the key idea which crowns his speeches is "the main point is for it...(he says what specifically) to work." The practice of Leonid Danylovych as president is a tired practice of working by elimination, a practice of trial and error; for this reason "it" digs in its heels and does not want to work. To stay on the safe side, we can repeat once again: The main point is for just any reform policy, whether adjusted or not, to work. It would be fitting to quote in this regard the words of the previous President Leonid Kravchuk spoken to the UNIAN: "The policy which the president proclaimed in Transcarpathia differs substantially from Leonid Kuchma's October report to the parliament. This is why the tasks of the team the president is putting together are different. Time will tell what the new government will be able

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to accomplish." Leonid Kravchuk also characterized the current status of the system of economic management "as transitional between flying on an autopilot and manual control" (as we can see, the position of Leonid I who during the year, given the opportunity, cursed Leonid II on a variety of pretexts has softened some).

However, neither these nor other factors should allow Leonid Kuchma to relax and get soft himself. The melancholic summer with its vacations for the people and a recess for the parliament will go by quickly, and unless the economic situation becomes at least somewhat nicer, a new increase in the role of the parliament and a new series of showdowns ought to be expected.

Political observers believe Kuchma will, after all, hold on to his position for the entire four-year term granted to him; he is a "suitable" president for many forces. We should hardly segregate ourselves into the black and the white, the sworn friends and the much-needed enemies, in our attitudes toward him: There ought to be a uniform vector for state policies pointing upward. As the Chinese say, we are not lucky—we live in a time of changes. We would like these changes to give way to changes for the better.

Economic Issues

*Banker on Nationalization, Currency Reform

954K0646A Kiev DEMOKRATYCHNA UKRAYINA in Ukrainian 8 Jul 95 pp 1-2

[Interview with Volodymyr Matviyenko, chairman of the board of the Ukrainian Joint Stock Commercial Industrial Investment Bank, by UKRINFORM correspondent Halyna Solyanyk, under the rubric "Interview of Current Interest"; place and date not given: "Volodymyr Matviyenko: 'One Should Always Count on Himself, All the More So When the Fate of the Nation Is Being Decided'"]

[FBIS Translated Text] **The history of the world shows that bankers have always been among the originators of economic leaps which led to the emergence of mighty countries. Those were knowledgeable, thinking, firm, and calculating bankers who at the same time were risk takers; they were geared toward international financial integration and yet were patriots of their states at the same time. Does the worldwide tradition continue here? Are our financiers capable of doing what their American, French, Japanese, German, or British colleagues did at one time? How favorable are the conditions created in Ukraine for capital to "start working," primarily in the interest of the state?**

Having set forth such questions and looked for answers to them, an UKRINFORM correspondent chose Volodymyr Matviyenko as his interlocutor from among many acknowledged Ukrainian financiers. He was chosen primarily because he has more than three decades of work in the banking system under his belt. He is one of the few people to have traveled the path from a provincial credit inspector to the manager of a prestigious bank and fully shouldered the burden coming with the position of chairman of the National Bank of Ukraine during a period of transition in our country. Volodymyr Matviyenko is living proof that this is not about the conditions, anyway, but rather about specific people: The Ukrainian Joint Stock Commercial Industrial Investment Bank which he heads is one of the largest, if not the largest and the strongest bank in our country. This bank is safely "staying afloat" and offering financial support for state programs at a time when many banks have fallen on hard times following a temporary rise, and some are going bankrupt.

[Solyanyk] Volodymyr Pavlovych, could you please start by briefly describing your bank; it appears that it may very well be the forefather of national banks.

[Matviyenko] You are right. The Prombank [Industrial Bank] has been known since as early as 1922 when it was established by the Soviet Government with a view to extending loans to industry, which required considerable investment. We have gained a lot of experience in the decades since. This experience may not have always been favorable; however, even in this case it has been a valuable acquisition. The bank has gone through the periods of industrialization, war, and reconstruction; it has survived under dictators, democrats, and hegemonists.

[Solyanyk] The name of the bank includes the words "joint stock commercial." For some reason, one gets to hear on occasion that if the Prominvestbank [Ukrainian Joint Stock Commercial Industrial Investment Bank] is not a state bank, it is close to being that.

[Matviyenko] The Industrial Bank has essentially been commercial throughout its history because it has always operated under economic accountability. It is another matter that it diligently surrendered to the state budget 95 to 97 percent of its profits. Imagine how difficult it was to develop then, when we had only scraps from the capital generated.

In 1992, we converted to a joint-stock format which was not easy, either: It came out that annual contributions to the budget over decades and the fact that we had nonetheless managed to spare funds for the construction

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of premises out of the miserable residual of a few percent do not even give us the title to the property the bank has accumulated over this period of time. There is no precedent in world history for what has happened in Ukraine: Reforms boiled down to the property of the entire people instantly becoming state property without being nationalized. As far as statutory capital is concerned, you know yourself that the bank was obviously a branch of the Moscow [headquarters], as well as all other banks in Ukraine. When the Soviet Union broke up the funds remained in Russia, its so-called legal successor. We set the goal of generating the largest possible statutory capital when converting to a joint-stock format. We found many partners and collected almost 2 billion karbovantsy, a large amount at the time. We made the decision to pay no dividend for a period of time in order to accumulate capital. The bank influenced the market favorably in this manner because it did not promote the deterioration of inflation and laid a safe foundation for its own liquidity.

[Solyanyk] According to you, a portion of the bank's property has been "taken over by the state." Judging from statistics, the bank has gained a lot, too, in these three years. How much, if it is not a secret? What is your relationship with the state now?

[Matviyenko] At present, our capital accounts for about 60 percent of all bank [capital] currently in existence in Ukraine. Due to this, we can carry out large transactions, and they reckon with us abroad. We are fully computerized (there are thousands of computers), and we have over 100,000 clients. We have created the best settlement system in the CIS; on some scores, it is even superior to similar systems in Western Europe. Documentation is processed within mere seconds. Our accuracy can be compared to that in launching a satellite. The Prominvestbank has joined the SWIFT [Society for Worldwide Interbank Financial Telecommunications] worldwide banking system. We have 400 correspondent accounts in CIS countries and more than 50 in Western countries. Our turnover comes to a few billion dollars. Due to its superior technical equipment and modern technologies, the bank receives most up-to-date information from the exchanges in New York, London, and Tokyo.

We are virtually the only ones to support our domestic industry at present. One more favorable aspect is that we have retained personnel and trained hundreds of new young specialists who know foreign languages.

Incidentally, it should be noted that the Prominvestbank has developed an entire system for personnel training. First of all, it includes the Higher School of Banking in which college-educated employees improve on their knowledge. Upon graduation from the school they become top-flight professionals. I am sure that at some point the chairman and members of the board, departmental directors, and chiefs of regional branches will come from among them.

The next stage involves a three-month course for bank employees as a result of which they receive license-backed certificates. Besides, we have trained 85 children, mainly those whom Chernobyl afflicted not only physically but mentally; they lost their parents and were in need of support. We provided excellent conditions for them, and they will now get good jobs. We are also putting together a college group.

This is what I will say about our relationship with the state: We fully comply with the Law on Banking and other legislative acts. Last year, we transferred two-thirds of the profit to the state budget, as we were supposed to. This amount is now somewhat smaller, according to standard rates.

In a word, in the environment of joint stock operations the Prominvestbank resolves all issues on its own and bears responsibility on its own. The state is responsible neither for our losses (if there were such) nor for our profits. The Prominvestbank is also responsible for loans, for their use as intended, and for their recovery.

[Solyanyk] We would like to know more details about the extension of credit to our economy and the system for determining its targets.

[Matviyenko] The Prominvestbank extends credit out of its own funds for more than one-half of all projects in our country which are designated as state programs. Of course, since ours is a joint stock commercial bank it has every right to determine the facilities in which to invest capital independently and to do so voluntarily. In essence, this is the way it is, but I will repeat that we invest mainly sectors and enterprises which have a priority status for the state.

For example, there is the Kherson Shipbuilding Plant. Our bank assisted it in securing orders to build tankers for two years to come from the United States, the FRG, and the Netherlands. The Oriana State Concern in Kalush (the former chemical association) is yet another example: Two new lines of production, wallpaper and carpets, were started there with our funds. As a result, within a few years the enterprise will provide such materials which are currently in short supply for the construction sector of Ukraine.

We also invest funds in oil refining, storage cell production, and health care. This means dozens and hundreds of enterprises.

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[Solyanyk] Strange. Why then are the rumors circulating about the nationalization of banks, including yours?

[Matviyenko] You see, as far as the others are concerned, this is what is happening: Many of them are going bankrupt. This is by no means the case with us. Hence this indeed begs the following question: What is behind these rumors—a game, politics, attempts to harm the Prominvestbank? After all, as you understand, such talk does not enhance the authority of the bank but, on the contrary, scares away clients. Could someone be expecting to improve the financial standing of the state, having made ours a state bank by a mere stroke of a pen? This is absurd. Given this approach, the current possessions of the Prominvestbank will be squandered away within a year or sooner yet. This will not bring in more money. The personnel will scatter, and the electronic system will go to waste. Most importantly, many people, including those abroad, will have doubts about the sincerity of Ukraine's intention to reform its economy and make a transition to a market mode. Nor are there legal foundations for nationalization. The bank operates in accordance with national legislation and meets the standards set by the NBU [National Bank of Ukraine] and international financial organizations. The bank's capital belongs to 200,000 shareholders, and it can only be taken away through robbery. If there are hotheads prepared to do this in our state I have nothing but pity for them.

I am certain that this issue is closely associated with financial theory and practices which exist in Ukraine as a whole. I may irritate some of my colleagues but I will still say that the current concept of monetary circulation and its control cannot stand up to any criticism. These circumstances must have most probably suggested the conclusion that something needs to be done about the banks. No, something needs to be done about those who develop particular programs rather than with the banks, with those who pull their weight.

What I mean is that a monetary policy is currently emphasized here whereas quite different attributes should work in the environment of a transition from a planned command-administrative system to a market system. Why did the payment crisis develop? Why is there a universal shortage of money—goods are there, but money is not? Why? If production has fallen, say, by one-half, then why did the value of currency fall by a factor as high as 150,000? Prices increased by a factor of 10,000 but not 150,000. What has happened? Someone should clarify this.

[Solyanyk] Indeed, all of this makes one wonder. Perhaps we wanted to build a market economy very fast. Perhaps we had hopes for the world experience which we could use?

[Matviyenko] It is the whole point that we should have taken our own path. Incidentally, at present there is no national approach to the national economy. We borrow models alternatively from the French, the Germans, and the Americans. Foreign emissaries come here looking for something. Meanwhile, we should have our own reliable program designed precisely for our level of production, designed to ensure the development of our industrial and social potential.

[Solyanyk] To your mind, what could now bring about at least some favorable changes?

[Matviyenko] An immediate monetary reform is a way out of the situation we are facing. Only such a reform can stabilize our national currency, to be sure, temporarily. Given profound calculation and well designed, balanced steps, such "temporariness" should suffice in order to get the ball rolling, arrest the decline, and lay the foundation for a pickup in the economy.

However, everything should be compared based on prices and wages. Tell me, can a person be paid some $10 a month? We should calculate how much is needed in living expenses, how much one person can produce, and what profits should amount to—regular profits rather than those reaching 200 or 300 percent.

Our yardstick for financial operations should be the same as for neurosurgery because banks and money truly amount to neurosurgery; only a great surgeon in possession of certain instruments may set everything right. At present, people often interfere with this business who do not know about banking. For some reason, concepts and programs are developed by people who are far removed from practice and know the "subject" from literature.

[Solyanyk] The issue of the strongest possible integration into CIS structures is now being energetically broached. What do you think about it?

[Matviyenko] I will only say this: Integration should proceed on a voluntary basis. The Prominvestbank is also being integrated into the banking systems of the world; it has communications channels and correspondent accounts, it opens representative offices abroad. However, no bank in the world syphons away our money; we are independent. We play by the rules, and I am the master in my bank. When it is proposed to form some kind of a financial or industrial structure and once again force us into it, it is something that we have already had—collectivization, industrialization. This will bring things to the average level which used to be called the USSR.

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[Solyanyk] And what about the FPG's [financial and industrial groups]?

[Matviyenko] The concept is good, but it should be completely voluntary. Neither enterprises nor banks can be "herded" into the groups in an artificial manner. This problem should be solved in an evolutionary manner.

It is the duty of the bank to support the state. For example, we can ensure the financial development of the Azovstal. If this giant develops we will have perfect technologies and the attainment of world standards which Ukraine needs. Also, there is our aviation: It should be created and supported in every way. A great many projects are not being implemented now. We can establish relations and form a group with the Motor-Sich Association in Zaporozhye, the imeni A.K. Antonov Design Bureau, and other interested collectives. We are in a position to create dozens of such structures with the bank at the center and production facilities around it. If there is a need for the Russian side to participate it is welcome to do so but at the stage of delivering certain products rather than the distribution of already manufactured products whereby we will have dumps for metallurgical and chemical wastes and they will have companies and cars. I repeat that the economy should follow a national direction; if one lives in Ukraine he should work for this state rather than another, regardless of his ethnic background.

[Solyanyk] How do you view the arguments of those who maintain that the economy should be stabilized for the hryvnya to be introduced?

[Matviyenko] A monetary reform should have occurred when favorable conditions for it existed. It would have been best to do this in 1992 or even in April 1994. Of course, the reform is no panacea; it will not protect us against all troubles but it will give us some breathing room. If we take advantage of it we may at least get away from the rate on the exchange which has been created artificially. As it is, as we introduce a new national currency we establish our own mandatory official rate which is recognized by all countries—Russia, America, and we lose nothing at this rate for a while. We should abandon the rate set on the exchange. In general, we had no right to introduce the exchange under such circumstances. Those who say that the hryvnya should be introduced after the economy has been strengthened will be left with nothing but coupons.

[Solyanyk] What is your projection for the end of this year, based on the current conditions?

[Matviyenko] Projections are a difficult and dangerous business. I am an optimist but so far I have seen no genuine steps of any kind on the issue of the monetary system development.

[Solyanyk] Do you think that it is realistic to expect that the World Bank, the European Community, and the G-7 will keep all their promises to Ukraine?

[Matviyenko] I maintain that Ukraine should have a concept of restructuring all its own, and a view of the financial situation and the status of monetary circulation all its own. We should operate on this basis.

We should work with international financial institutions but only with regard to the assistance we request rather than on managing Ukraine from there. They should not interfere and dictate to us, for example, the market structure, etc. This is nonsensical. As far as the funds which these international organizations have already given Ukraine are concerned, they are, unfortunately, a drop in the bucket. Compare this: At one time, the United States gave $52 billion to Mexico, and we are talking about $263 million....

[Solyanyk] So, will we end the interview on this sad note?

[Matviyenko] I do not want to do so, and I understand that you do not, either. Therefore, let us believe in a fortunate future for our state and our people regardless. Our people deserve this. May this future not be long in coming.

*Possible Presidential Candidates Examined

954K0647A Lvov POST-POSTUP in Ukrainian 5-18 Jul 95 No 24, p 1

[Article by Oles Danylyuk: "The Struggle for the Presidency Has Begun. The Key Face-Cards Have Already Been Determined. Which One Will Become the Trump Card?"]

[FBIS Translated Text] The New Ukraine association which everyone had already stopped mentioning rose from the ashes on 1 July. At the Fourth Congress of New Ukraine, highly colorful figures joined the association; it has not had a membership like this since the day it was started. Mayor of Kharkov Yevhen Kushnaryov assumed the leadership of New Ukraine; he has for deputies Volodymyr Filenko, the chairman of the Party of Democratic Revival in Ukraine, and Anatoliy Matviyenko, the leader of the Labor Congress of Ukraine. In addition, Oleksandr Razumkov, an aide to the president of Ukraine, Valeriy Pustovoytenko, the minister of the Cabinet of Ministers of Ukraine, Anatoliy Halchynskyy, adviser to the president for macroeconomic issues, Vasyl Yevtukhov, the president of the Ukrainian Union of Industrialists and Entrepreneurs,

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Oleh Dyomin, a deputy chairman of the Supreme Council of Ukraine, Viktor Pynzenyk, the first deputy prime minister, and Yuriy Yekhanurov, the chairman of the State Property Fund, became members of the Presidium of New Ukraine. Deputy Minister of Finance of Ukraine Borys Sobolev headed the audit commission of the association.

Although Yevhen Kushnaryov stressed in his presentation that the association would refrain from delegating its members to the new government on a party basis, New Ukraine has become the "party of power" which would like to retain the heights of power. Who will be at the apex? For now, the current President of Ukraine Leonid Kuchma appears to be the likeliest candidate. Shortly before the congress of New Ukraine, Kuchma's predecessor revived the liberal faction of the parliament which wishes to win the presidential election. Kravchuk's pro-Ukrainian image substantially improves the chances of the Liberals (a party of East Ukrainian, mostly Donetsk business circles) in the West and in the rural areas of the country. This move will not result in any particular gain for Leonid Kravchuk beyond the possible mental satisfaction in the event Kuchma loses the next presidential election. The economist Volodymyr Lanovyy and perhaps the Donetsk Governor Volodymyr Shcherban are the major Liberal candidates.

These particular two blocks are expected to engage in the keenest competition during the future elections: They will make use of the same slogans and be actually geared toward the same electorate. It is quite probable that one more bloc will "invade" the territories of the above two. Yevhen Marchuk is not against trading in the prime minister's post for the presidency. An individual who personifies police structures (according to data from the Democratic Initiative Center, citizens of Ukraine have the greatest confidence in them) and does not have a counter-reformer image can get through with the popular slogans of "restoring order" while also introducing market-oriented reforms. The constitutional agreement has made it possible for him to hide behind Kuchma's back; the president of the country is now responsible for the operation of the government. Meanwhile, Marchuk's elevated position gives him an unlimited scope to look for allies among the Ukrainian directors. To be sure, according to POST-POSTUP's information, the prime minister does not yet have a clearly defined support group.

To the left of these three centrist groups, the Communists and Socialists will most likely rally around the figure of Speaker Oleksandr Moroz. A few scandals which have broken out in his entourage (the case of Deputy Tkachenko and Adviser Bozhenar) failed to even leave more or less distinguishable burn marks on the bright image of the premier Socialist. His ground, a nostalgia for the past, has not only failed to give way in recent years but has solidified. By all signs, the national center-right will not successfully unite: There is only one presidential position whereas there are a few candidates. Even further to the right, the popularity of the extremists is growing, but not enough for them to win a presidential election.

Therefore, we have four kings: Kuchma, Lanovyy, Marchuk, and Moroz. Which one will become a trump card? We may learn this as early as November of next year.

For more on the topic see page 2.

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Belarus

*Industrialists Oppose Lukashenko Economic Policy

954F2784A Moscow DELOVOY MIR in Russian 29 Jun 95 p 4

[Article by DELOVOY MIR Minsk correspondent Vladimir Sverkunov: "The Government Is Chided"]

[FBIS Translated Text] The image of the immortal Taras Bulba was present at the conference where Belarusian President Aleksandr Lukashenko assembled his team of "rescuers of the motherland": responsible officials of the administration, the cabinet of ministers, and so-called "vertical" echelons—the heads of local executive committees, as well as selected managers of industrial and agricultural enterprises.

Those present—many of whom had acquired their position at one time by direct order of the president—did not even have to be reminded of the well-known phrase: "I made you and I can kill you!" Characterizing the situation in the republic as extraordinary, the president told his audience:

"A year has gone by and you cannot take the situation in hand and correct it? Who are you waiting for? Are you waiting for me to come and stand before the people and give an accounting for the government and for you?"

Several officials were ordered directly to part with their "portfolios." Others received a proper reprimand. Even Prime Minister Mikhail Chigir caught it because the Belagroprombank, which he had headed before joining the government, has a great deal of influence and is setting excessive rates for loans, Lukashenko said.

This conference essentially summed up results of the year of the first Belarusian president's rule. On the eve of elections last summer, he promised to stop inflation and the decline of the Belarusian ruble with respect to other countries' currencies, to put an end to crime, and finally, "to start up industrial enterprises." With regard to the first two points, Lukashenko was able to report that the inflation rate dropped from 40 percent in January to 20 percent in March, 14 percent in April, and 3.5 percent in May. The exchange rate of the Belarusian ruble has been stabilized (it has remained unchanged for about a year, 11,500 to 1 U.S. dollar, for example). This is the basis for the president's conclusions on stabilization in the country.

Knowledgeable people, however, have considerable doubt about this thesis. Managers of the republic's Union of Industrialists maintain that Belarus does not have stabilization, but a crisis unlike any in peacetime over the past 70 years. As a matter of fact, 90 percent of the enterprises are not operating.

But the president was more specific: "The economy is practically not functioning, but we have managed to resolve the most important problem: reducing the increase in prices somehow.

According to Lukashenko's information, the recession has affected nearly half the production facilities. Of the 430 most important products, there has been a decline in 303 items. In the Ministry of Industry (it includes mainly the former plants and associations of union subordination, that is, the largest ones in the republic), about 80 percent of the enterprises are on the verge of bankruptcy. Finished products valued at hundreds of billions of rubles have accumulated in warehouses. This year the incurred debt for commodities (nonpayment for Belarusian enterprises' products which have been delivered) increased by more than 8 trillion rubles [R] to R24 trillion. Credit indebtedness (Belarusian enterprises' nonpayment for energy, raw materials, and materials) increased by R14 trillion, reaching R31 trillion.

One conclusion may be drawn from this: by promising before the elections to "start up" enterprises, Lukashenko sought to achieve this in the literal sense. The republic's economy has never known such neglect. According to the president, the collectives and their managers are to blame for this: instead of tending to business, they have been "playing the market."

Over the past three years, the entire country has been playing this fascinating game. The banks became part of it first, using their clients' funds in current accounts. Then came the enterprises, with the help of favorable credit terms. Both of them are experiencing tremendous difficulty in stabilization, since they forgot how to work during this period, and perhaps they simply were unable to work. For this reason, a group engaged in economic activity which will be intensely and purposefully opposed to stabilization has steadily taken shape... Let them criticize me once again for my anti-market approach, but I cannot play in some kind of incomprehensible market. With such a market, we can reach the point that we destabilize the political and economic situation to the extent that there will be nothing for us to do here.

Of course, we have to define what kind of stabilization and what kind of market we are talking about. With respect to stabilization of the national currency, most economists believe that this is an artificial phenomenon, and together with a few "pluses," it has brought quite a few negatives. Russian commodity producers encountered this phenomenon, though to a much lesser degree, after some decline in the dollar in the currency market. As a rule, revaluation of a national currency "eats up"

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the incomes of exporters who sell products for SKV [convertible currency]. For Belarus, with its not very large foreign market and hundreds of giant enterprises, it was preordained primarily for exports, which are now on the same footing as shipments to the CIS countries. It is not hard to calculate that with inflation at about 80 percent since the beginning of the year, the Belarusian ruble was actually re-evaluated with respect to convertible currency and even the Russian ruble by the same amount, and exporters' incomes were reduced by the same amount. It becomes apparent why "Atlant," one of the republic's best associations which produces the well-known "Minsk" refrigerators and which was competing successfully in the Western market just yesterday, has suddenly become overstocked with finished products.

There is also lack of coordination with respect to the market. Stanislav Bogdankevich, chairman of the board of the republic's National Bank, pointed out at the conference: "We are criticizing the market, but we are not operating the market." True market laws are not functioning yet; there isn't full financial responsibility of suppliers and purchasers for meeting contractual and other payment commitments. In no other system does one give someone else's money to those who do not know how to work profitably; apparently this is widespread only in Belarus. Unprofitability is snowballing; it has already reached the commercial banks, which recorded a deficit of R138 billion in their balance for May.

Speaking in the president's words, the market really turns out to be incomprehensible. In the opinion of the Union of Industrialists, what is taking place may be called "playing in the market," but playing as the government, not economic entities. In many respects, this is explained by the effort to obtain loans from the International Monetary Fund and other foreign organizations. Inasmuch as these organizations set the development of market reforms as the principal condition, these "reforms" are specially invented, but in practice they are not even begun. This was the case, for example, with creation of the Expert Council on Economic Development attached to the cabinet of ministers. Not one representative from the business structures was invited to join this organ. It was joined mainly by the persons who had written about the economy.

Analysis of the documents developed within the president's administration and the cabinet of ministers shows that the government is consistently moving toward more and more administration and is trying to become the "guiding, directing, and controlling" force of society. Lukashenko's directives, which he announced at the conference, have turned out the same way. Most of the 17 points do not go beyond the limits of the usual declarations, however. For example, the cabinet of ministers was told to "assume full responsibility for what is being done in the sphere of physical production," as if this organ was not responsible for anything previously. Another point calls for "creation of a joint group to develop proposals and a mechanism for seeking out noninflationary sources to finance reorganization of the republic's production potential." This money has been sought for a year already, and no one can find it. One more directive: "Analyze legislative documents, eliminating the statutes which force those engaged in economic activity to appeal en masse to the government for solutions." It seems all right, but you will automatically wonder how the officials will manage without the "mass appeals; " that is their living! It is unlikely that they will deprive themselves of the opportunity to see as many visitors as possible...

There are sensible proposals as well, but for some reason it is hard to believe that they will be implemented. One of them concerns the drafting of a new law on taxation. All the economic managers think Belarusian taxes are too oppressive: they are excessive, and discussions about revising the complicated tax laws have been held for a long time. It may be that they are waiting for an indulgence, but even more servitude will be forthcoming.

It was proposed that the question of dropping prices up to 25 percent on commodities stored in warehouses for more than 30 days be reviewed, that a mechanism be worked out, and that a clearance sale of consumer goods at a 10-percent discount be held without delay. Not a bad measure, but why should the cabinet of ministers be involved in this, rather than the commodity producers themselves? The answer is simple: they were not given this authority.

This is the kind of incomprehensible market in Belarus, and it will be even more incomprehensible since enterprises' activity will be determined not by market conditions, not by competitiveness, and not by financial status, but by a simple command, also from the president's "directives":

"Sectorial ministries and departments are to prohibit managers of subordinate enterprises from stopping production facilities without authorization by a higher organization or local organs of authority. Managers of enterprises are to be relieved of their positions for unsanctioned stoppage."

Summing up results of the conference, A. Lukashenko promised state enterprise directors certain assistance—money for some, benefits for others—but as before, entrepreneurs and private firms and enterprises continue to be hostages to this uncertain policy. Experience

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has shown that nothing good will come to them from the government's intervention in the economy with directives.

As Vladimir Karyagin, president of the Union of Industrialists, noted: "We took the basis for relations with the state into account and wrote this into our program, but there can be no discussion of any social partnership now. The state should respect its citizens, including us, and heed their opinions. Our union is one of the social organizations which signed the General Agreement, together with the government and the trade unions, but the negotiation process with the authorities is turning out to be very weak. Despite one of the points in the General Agreement, in accordance with which we should be permitted to draft documents which involve economic activity, we were familiarized with practically all the president's recent edicts and cabinet of ministers decrees after they were adopted. We were even surprised when we received an official invitation not long before the economic 'summit' conference. Immediately afterward we received a call saying that questions would be considered in a smaller circle of the Security Council and the cabinet of ministers. The point is not that we were planning to obtain some of the privileges for ourselves but that the state is being deprived of the expert assessments of specialists who have direct contacts with thousands of commodity producers who are risking their fortune by taking part in this production. As a result, we have a disunited society, prepared for all kinds of shakeups and airing of dirty linen but not for creative work. We are moving away from civilization and prosperity. There is no pressure on the industrialist class in any other state. They do not operate under the pressure that we have in any other state, and we will be keeping our distance from dishonest policy, including dishonest state policy. There are already attempts to 'tie' us to 'the common cause' by saying: you have also taken part in this. So excuse us, gentlemen, but we are not taking part in this disorganization, this impoverishment."

Judging by the statements made by the leaders of this and other unions of entrepreneurs and industrialists in the Belarusian Confederation of Industrialists and Entrepreneurs, a recall of signatures from the General Agreement may be the reaction to the authorities' actions in the economy. This will open the way to strikes and protest actions, and ultimately, to final destabilization of the situation in Belarus, whose people can be proud of the "presidential" stabilization accomplished in a few months, although we cannot perceive any fruits of it yet.

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Kazakhstan

History, Effect of Ethnomigration Examined

954F2747A Almaty KAZAKHSTANSKAYA PRAVDA in Russian 8 Jul 95 p 2

[Article by Azimbay Galiyev, candidate of historical sciences and department head, AVSh, Ministry of Internal Affairs of the Kazakhstan Republic: "Migration of the Populace and Ethnic Destinies"]

[FBIS Translated Text] Migration of the populace is one of the absolute conditions for socioeconomic development of ethnic groups and states. The geopolitical space from Southeast and Central Asia to the Old World, and farther on to the New, is today once again subject to migratory shifts in the multi-millions, perhaps comparable only with the resettlements of the Huns on the threshold of our era, and of Arabs and Mongol-Turks—during a later epoch. History also tells us of a reverse movement from the Old World to the New. Following the demographic explosion and industrial- spiritual renaissance of the 13th and 14th centuries, there first begins a reconquest, and then the ethnomigrational expansion across the Atlantic—the movement of Europeans across the American continent. In the Eurasian space, beginning in the 15th century, the Moscow realm began a movement to the East, into the depths of Asia. It should be noted that before moving to the East, young Russia went through the grueling Livonian War that ended unsuccessfully. On the other hand, the capture of Kazan, the fall of Astrakhan, and progression across the Siberian khanate were accompanied by military-political support and alliance on the part of the Kazakh khans under "mutually advantageous" conditions.

This year marks the 540th anniversary of the formation of the Kazakh khanate. Just a few years after its official proclamation, the young state encompassed all its ethnic territory and even advanced past the realm of settlement of the Kazakhs. The geopolitical influence of Kazakhstan was clearly present not just in Central Asia, but in the Caucasus as well, and stretched to Crimea. However, a geopolitical "claim" of this nature was burdensome for the young state, and instead of a continuous migratory, demographic space taking shape, enclaves were formed which soon lost contact with Kazakhia and were assimilated in the course of two centuries within the predominating ethnic milieu.

The last census in the USSR was conducted in 1989. The Communist Party, as though sensing imminent collapse, conducted a major, substantive census but did not hasten to present the results to the scientific community. This is not surprising, insofar as these results contained ethnodemographic and ethnomigrational symptoms of the future collapse. Such an outcome was especially vital to the leading entity—Russia, for which further preservation of the Union threatened a "blackening" of the populace. The depopulation of Russians was being observed in Russia, as was the multifold increase in natural growth of "persons of Caucasian nationality" and Central Asians. At that time, a number of demographic scientists began talking openly about this, and the presentations of several of them were accompanied by a vividly expressed ethnocentrism.

Let us examine the nature of ethnomigrational processes in Kazakhstan based on certain available data.

The following data indicate the bottom-line figures with respect to migration in Russia and Kazakhstan for discrete periods of time. For the period 1961-1965, Russia shows a balance of -521,500 people, Kazakhstan: +407,000; for 1966-1970, Russia: -598,400, Kazakhstan: +24,300; for 1971-1975, Russia: -194,700, Kazakhstan: -261,100; for 1975-1980, Russia: +725,200, Kazakhstan: -413,900; for 1981-1985, Russia: +926,400, Kazakhstan: -403,300; and for 1986-1990, Russia: +782,900, Kazakhstan: -481,500. (Source: V.I. Perevedentsev, Migration of the Populace in the CIS, Political Studies, 1993, No. 2, p. 75)

Whereas forced migration to the fringe republics was being observed prior to the mid 1950's, especially beginning in the second half of the 1920's, later on we see the increased significance of ideological appeals promoting "great" construction projects for romantics, as well as for pragmatists—the money hunters. True, by the end of the 1960's we see a sharp drop in the effectiveness of public appeals, and opportunities to create material incentives for resettlement in the ethnic republics become ever fewer. Moreover, the effectiveness of investments in migration to the fringe areas also drops sharply. For example, resettlement to Karakalpakia, to southern Uzbekistan, Tajikistan, and Kazakhstan, began costing the treasury 4,000-5,000 rubles per migrating family. Realization of the migrational realities developed slowly, however. Even after conclusion of the "virgin lands epic," arrivals in Kazakhstan numbered 612,800 in 1959, while departures numbered 421,300, including 150,500 arrivals in Tselinnyy Kray and 108,700 departures from it. Young people aged 20-23 were predominant among the arrivals—men more so than women. In 1968 Kazakhstan experienced a negative migration balance for the first time, and beginning in 1970 this process became steady, increasing from 45,000 to 80,000 at the outset of the 1980's. What were the reasons causing people to leave Kazakhstan? In my view, reasons of a socioeconomic and sociopsychological nature predominated. At the same time, we cannot brush aside ethnopolitical motives. The attempt at economic reform undertaken by Brezhnev and Kosygin in

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the mid-1960's played its role in the emergence of elements of economic liberalization. The rate of socioeconomic development in Russia began to increase more rapidly than in Kazakhstan. The high birth rate in the 1950's created a demographic surplus at the beginning of the 1970's, which led to a labor excess. As a result, people began talking more and more about nostalgia for their land of origin.

In 1979-1989, the Russian population decreased in eight oblasts: South Kazakhstan, Zhezkazgan, Kzyl-Orda, Zhambyl, Taldykorgan, West Kazakhstan, Semipalatinsk, and Atyrau. In 1989-1994, it continued to diminish in terms of absolute figures. Whereas in Kazakhstan, the Russian population in 1989 totalled 6,228,000, in 1995 (as of 1 January) it was about 5,780,000 (not considering the depopulation factor). Thus, the loss of Russian population amounted to about 450,000, and the proportion decreased from 37.8 to 34.6 percent.

Migrational shifts of various ethnic groups with respect to Kazakhstan showed the following balance in 1993: All nationalities: -222,101, Kazakhs: +23,490, Russians: -123,770, Ukrainians: -16,580, Belarusians: -3,848, Germans: -84,123, Tatars: -5,329, Uzbeks: -1,571, Uyghurs: +55, Azerbaijanis: -164. The same indices for 1994 show: All nationalities: -410,387, Kazakhs: +5,484 Russians: - 251,934, Ukrainians: -32,325, Belarusians: -6,420, Germans: -89,796, Tatars: -10,979, Uzbeks: -2,217, Uyghurs: -67, Azerbaijanis: -790.

Calling attention to itself is the sharp increase in scale of departures of Russians, Ukrainians, and Belarusians (double), and the reduction more acute still in the influx of Kazakhs to their historic Motherland. Some 302,000 people departed for Russia in 1994, 83 percent of this number being of Russian nationality. Of 32,300 Ukrainians leaving Kazakhstan, just fewer than 7,000 moved to Ukraine. This shows that economic priorities are predominating over ethnic ones.

Demographic pressure on Kazakhstan's labor market is leading to replacement of the labor force of the East-Slavic superethnos, who are dissatisfied to a great extent by the relatively low rate of growth of wages, decline in the social infrastructure, interethnic arrogance, and the results of ethnosocial rivalry.

The German population is departing at a steadily high rate. At the outset of 1995, Germans numbered 523,000. The German population is almost entirely gone in the southern and western oblasts of Kazakhstan. The epicenter of the outflow has shifted to Karaganda and Akmola Oblasts. Apparently this process will come to envelop Kostanay and North Kazakhstan Oblasts. The outflow of Russian population has affected the northern and eastern oblasts. Prior to 1993, practically no egress of Russians was observed from Kostanay and North Kazakhstan Oblasts.

In the next few years, the Russians of Kazakhstan will urbanize themselves in rapid order in both Kazakhstan and Russia. Special note must be made with respect to the Islamic ethnic groups—Turks, Kurds, Uyghurs, and Uzbeks. Their high natural growth, compact resettlement patterns, permanent ethnoeconomic contacts, and low level of urbanization make their demographic and historical destiny analogous to that of the Kazakhs.

On the whole, migrations comprise a complex web of contradictions. It is impossible for scientists or politicians, and especially so for journalists, to view migration processes as solely positive or solely negative phenomena. It is more dangerous still to illegally attempt to manage emigration through prohibitions or bureaucratic restrictions. Simplification of the procedures for emigration and immigration, and of those for acquiring citizenship in Kazakhstan and Russia, will undoubtedly contribute towards reducing socioeconomic and ethnopolitical tension in both republics.

1994-95 Production Volume Figures Compared

954F2758A Almaty EXPRESS-K in Russian 11 Jul 95 p 2

[Report by the Republic of Kazakhstan State Committee on Statistics and Analysis: "We Are Declining, But More Slowly. But We Are Declining"]

[FBIS Translated Text] During January-May of this year industrial enterprises of Kazakhstan produced 253.1 billion tenge worth of products.

Beginning with the fourth quarter of 1994 there has been an increase in production volumes as compared to preceding months. Thus while on 4 March 1994 the average monthly increase amounted to 1.9 percent, during four months of this year it rose to 2.2 percent. But in May there was a certain retardation of the growth (0.4 percent).

The extent of the decline of production is decreasing significantly as compared to the corresponding months of last year. Thus with a decline in volumes on average over five months of 1994 as compared to 1993 of 30.1 percent, during January-May of this year the decline decreased each month from 22.4 percent in January to 13.9 percent in May (on average—16.9 percent).

The monthly dynamics of industrial production in the republic during the five months of 1995 are given below:

January—in percentage of preceding month—101.0; corresponding month of preceding year—77.6

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February—in percentage of preceding month—101.1; corresponding month of preceding year—82.8

March—in percentage of preceding month—105.6; corresponding month of preceding year—84.5

April—in percentage of preceding month—101.2; corresponding month of preceding year—85.1

May—in percentage of preceding month—100.4; corresponding month of preceding year—86.1.

The dynamics of the output of products differ significantly in the various sectors and branches of industry. May volumes exceed April volumes in many branches of industry, but most significantly in the chemical and petrochemical industry (by 54.5 percent), in the oil refining industry (by 23.1 percent), in the gas and lumber industry (by 17.3 percent), and oil production (by 10.9 percent). A growth of production volumes as compared to May of last year is observed in the gas industry (by 27.9 percent) and in ferrous metallurgy (8.5 percent).

On the whole during the five months relative to the analogous period of last year the volume of industrial production in the republic decreased by 16.5 percent, but the decline was barely half as much as during January-May 1994. With a decline in production in industry as a whole, in certain branches there was a considerable increase: in the chemical and petrochemical industry—43 percent, ferrous metallurgy—24 percent, and the gas industry—10.6 percent.

The reduction of production was less in branches of the fuel and energy complex than in the republic as a whole: in electric energy production—4 percent, oil production—6.2 percent, and oil refining—13.1 percent. This was conditioned by their export orientation and also the high level of material- and energy- intensiveness of their products.

In the majority of processing branches there was an essential reduction in the volume of production in branches that are oriented toward the output of products for investment purposes and consumer goods, whose production programs are increasingly based on the financial capabilities of the clients and the effective demand of the population. Considerable arrears were observed during January- May in light industry (61.2 percent), and the timber, wood processing, and pulp and paper (39.6 percent), and food (38.8 percent) industries.

As compared to January-May 1994, 1,935 enterprises (almost every third one) lowered the level of production volume, and they failed to produce 69.3 billion tenge worth of products (which is 27 percent of all the products produced in the republic).

Of the 210 most important types of products taken into account in the current reports, for 87 items (41 percent of the overall number) in May 1995 relative to April 1995 there was an increase in production (among them: oil and gas condensate, primary oil refining, iron and chromite ore, tin plate, ferrous alloys, certain types of nonferrous metals, metal cutting machine tools, bulldozers, tractor plows and mowers, synthetic ammonia, yellow phosphorus, synthetic resins and plastics, microbiological nutritive protein, shipment of timber, construction brick, asbestos cement pipes and couplings, soft roofing materials, knitted items, electric vacuum cleaners, television sets, butter, fatty cheeses, dry whole milk, bread and bakery items, confectionery and macaroni items, household soap, and others).

During January-May of this year as compared to January-May of last year there was an increase in the production of 47 items and a reduction of 153.

We Are Standing Still, Brothers, We Are Standing Still....

As usual, the results of the operation of Kazakhstan's industry are affected by the lengthy down time of enterprises and certain productions.

In May of this year as compared to April 1995 the number of enterprises at which there were lengthy amounts (more than one shift) of down time increased to 465, and losses of working time increased to 1.73 million man-days (which is more than 24 percent of the scheduled supply of work time).

In May there was an increase in the number of enterprises that fully shut down production (68 enterprises, or 15 percent of the number that were idle), as a result of which 5.8 billion tenge worth of products were not produced.

The main reasons for the shutdowns are difficulties with the supply of material resources (71 percent of all losses of working time), and of these, difficulties related to a shortage of financial funds—35 percent, and those caused by lack of a market for selling the products—11 percent.

The largest number of idle enterprises are in East Kazakhstan (52), Zhambyl (38), Semipalatinsk (34), Taldykorgan and South Kazakhstan (32 each) Oblasts.

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Details in Alem Bank Status Still Unclear

954F2781A Almaty EKSPRESS-K in Russian 13 Jul 95 pp 1-2

[Article by Valentina Dudkova: "Alem Bank: Break the Bank? The Bank's 'Bankruptcy'—Reality or a Carefully Planned 'Information Leak'"]

[FBIS Translated Text] As B. Saparbayev, leader of the apparatus of the Cabinet of Ministers, announced at yesterday's news conference, on 10 July of this year the leaders of the Alem Bank of Kazakhstan were relieved of their duties. The bank was switched over for two weeks of temporary management by the commission, which includes representatives of the government and the Central Bank. It is headed by M. Beysenov, an adviser to the prime minister on economic issues.

B. Saparbayev said that the government was undoubtedly interested in keeping Alem Bank in operation since very many people in the world know of Kazakhstan precisely because of this bank. But the situation is such that the total indebtedness as of today amounts to about $100 million and the debt problem must be solved. It is possible, he went on, that Alem Bank Kazakhstan will have to be sold or turned over for temporary management. Concrete measures will be taken at the end of the commission's work. "It is too early to speak of bankruptcy!"—he said in conclusion.

Thus B. Saparbayev indirectly more or less confirmed the information of the KHABAR agency that appeared on television on 11 July. In this sensational report KHABAR referred to a reliable source, saying that the bank's assets were already frozen.

At a news conference at Alem Bank Kazakhstan they refused to comment on B. Saparbayev's statement, but regarding the report of the KHABAR agency V. Marchenko, deputy chairman of the National Bank, said that it was disinformation. The commission is indeed working in the bank but none of the leaders has been fired, the assets are not frozen, and people have not been sent on leave without pay. The supervisory council and the bank board, in addition to making an official announcement, also intend to file charges in court against the KHABAR information agency since it is difficult to overestimate the moral and material harm this report could do to the bank's reputation. The National Bank of the republic an the Association of Banks also intend to make official statements.

From the official report on Alem Bank Kazakhstan: The consolidated balance as of 1 July 1995 was 62.5 billion tenge, revenues—1.711 billion tenge, expenditures—1.213 billion, and profit—497 million.

The state's share of the joint-stock bank Alem Bank is 74 percent, the share of other organizations and enterprises—2.9 percent, and individuals (citizens of the Republic of Kazakhstan and foreigners)—23.1 percent.

The overall number of clients is 30,000, including 2,725 accounts of resident legal entities in foreign currency, 274 settlement accounts of republic enterprises and organizations in tenge, and 39 in currencies of the CIS countries. This is the largest bank for foreign economic activity, which has correspondent relations with 200 banks of the world. And 40 percent of all the operations in foreign exchange are completed through this particular bank.

Alem Bank Kazakhstan has 22 branches and 10 divisions in Kazakhstan.

P.S. We will report to you on the further development of events in future issues.

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Armenia

*Benefit Seen in London Bank Yerevan Office

954F2815A Moscow DELOVOY MIR in Russian 5 Jul 95 p 2

[Article by Murad Sarkisyan, DM correspondent: "'Midland' Starts From Yerevan"]

[FBIS Translated Text] **Armenia has become the 66th country which London's Midland Bank, one of the largest banks in the world, with about 3,000 branches and over 103,000 associates, has "got its hooks into." Bagrat Asyatryan, chairman of the board of the country's Central Bank, ceremoniously entrusted Midland's representatives with a license permitting the activity of a new bank, the Midland-Armenia Bank, jointly established with the Ewing Establishment from Liechtenstein.**

Its charter capital is relatively small — $10 million. Midland-Armenia, however, is part of the holding group of the Hong Kong-Shanghai Banking Corporation, whose assets are over $200 billion.

Why did Midland choose Armenia precisely? We all know that no prophet is recognized in his own country. All the oaths and assurances of the authorities about creating conditions in the country favorable for attracting foreign capital, to which the opposition pays no heed, it seems, are most carefully studied by Western business circles. As David Bad, director of the newly-formed bank, stated, before its gaze rested on Yerevan, they made the rounds of the CIS countries and studied the customs legislation and the situation. They all felt that Armenia, suffering hard times, was the best choice.

It has, however, only just begun. Midland-Armenia, while being a branch, at the same time serves as a base institution. It is from Yerevan that Midland intends to begin cultivating the banking virgin soil, amounting to "one-sixth" of the world. Its directors are planning to create 200-250 divisions in the CIS countries.

It is by taking into account the difficulties of the long road ahead of it that Midland intends to pay most serious attention to the organizational preparation of the branches for work. Its associates, in addition to special training in Armenia, are also going through probationary work in London and Dublin. The bank's office is equipped with the most modern technology.

Let us note that this is the fifth foreign bank on the territory of Armenia. Branches of the Russian Menatep and Russkiy Kredit, Ukrainian Inko and Iranian Mellat had been set up previously. They, however, are not official residents of the Central Bank of Armenia and therefore cannot develop properly, and can offer their clients only certain forms of service. Midland-Armenia, however, completely fulfills the conditions of the local legislation. This makes it possible for it, at the same time, to become "its own man" in the country and also, which is of no little importance, to constitute serious competition for Armenian banks.

The country's government also reached quite a satisfactory agreement. In fact, it promises to turn the paths beaten by foreign bankers into a broad and lively road. (For example, the French are also "knocking at the door.") It will therefore be possible to speak about the gradual implementation of the idea, so dear to the hearts of the authorities, of turning Armenia into a banking center on a regional scale. The presence of Midland-Armenia in Yerevan might possibly dispel the apprehension of Western entrepreneurs about the situation in the region and provide an impetus for a flow of investments into the country's economy.

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Latvia

Ministry Official on Organized Crime

954K0623A Copenhagen BERLINGSKE TIDENDE in Danish 22 May 95 p 8

[Article by Jakob Elkjaer and Michael Robak: "Unlimited Crime"]

[FBIS Translated Text] Riga/Copenhagen—Western pop music blares from cheap loudspeakers, small stands stand next to one another in endless rows, and old women who can't afford their own stand stand in long rows and offer everything from a single dirty T-shirt to a cold, undernourished puppy for sale.

At the big market behind the main train station in Latvia's capital Riga, you can buy almost everything.

From a dilapidated white 20-year-old camping trailer cigarettes are being sold. Both the strong local cigarettes made with brown Turkish tobacco and the expensive foreign brands for five Danish kroner a pack.

All of them without excise stamps.

The sight of the many smuggled cigarettes annoys Leo Blaabjerg Sorensen, managing director of the House of Prince Riga.

"These sales are going on quite openly without the authorities' intervening. That distorts the market for those companies paying taxes. We get unfair competition from products being sold at smugglers' prices. Without customs duties, consumer taxes, or value-added tax, the smugglers can sell Western cigarettes for almost half-price," he said.

It isn't just cigarettes that are being smuggled into Latvia. Everything from potatoes to cosmetics comes across the borders without duties.

Aldis calls himself "a sort of businessman." He is 24 years old and dressed for business: a suit, tie, gold watch, and a mobile telephone. Last month he earned 280,000 kroner. Now he is enjoying a glass of Metaxa at his favorite cafe in the old quarter of the city within Riga's city walls. His private chauffeur is also having a drink.

Furthermore, Aldis is telling his life's history in fluent English, but he wants to be anonymous, so he doesn't want to have his real name mentioned.

Last year he quit his job as a department head with the tax administration. Now he earns his living smuggling furniture into Latvia and selling it to the public. At the same time he earns money counterfeiting transit papers for foreign companies so they avoid paying fees to the Latvian state.

Customs guards and officials at the border get about 30 percent of what Aldis would have paid in consumption taxes, value-added tax, and duties to let the goods cross the border unhindered.

"I really have seen this from both sides and so I'm well aware that my business dealings hurt both the state and the foreign companies. Originally it was exciting for a young man like me to help build up an entirely new country. My dream was to become foreign minister, but it's hard to hold on to your dreams when you can see your friends leaving the tax administration one after the other to earn quick money as businessmen," Aldis said.

When Aldis was a department head he earned about 2,000 kroner per month—the price level in Latvia is about one-half that of Denmark. Wages are low in the public sector. Policemen and customs guards earn 900 kroner per month, which is 100 kroner above the average wage.

Spanking New Mercedes

At the corner of Stabu Iela and Brivibas Iela is the former KGB headquarters in Riga. In his office on the top floor sits Aloiz Blonskis. He is the head of the department within Latvia's Home Ministry that is responsible for combating organized crime. Aloiz Blonskis is new at his position. His predecessor could not account for a spanking new Mercedes.

"We've got problems with the staff in the police and customs forces. We should have done something about the problems but many of our people are too poorly trained and the wages are very low, so the people we've got here are frequently the ones who can't find a better paying job," he said.

Aloiz Blonskis' department works on all of the new forms of crime that have come to the Baltic republic since independence in 1991. The spectrum is a wide one. Protection money has become a part of everyday life for Latvian businessmen, the financial sector launders money for both the local and the powerful Russian mafias, and Latvia has become a transit country for the smuggling of narcotics and refugees from east to west.

Blonskis estimates that about 20 percent of the Latvian economy is based on illegal business.

"Most of the illegal money comes from smuggled goods and illegal financial transactions," he said.

The illegal imports mean that the Latvian state is cheated out of millions of kroner. That, among other things, is why the state cannot afford to pay its civil servants properly. And for that reason they are easy to bribe. It's a vicious circle.

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In Leo Blaabjerg Sorensen's desk drawer is an 83-million-kroner plan to invest in production that on a yearly basis could give the strapped Latvian state millions in tax revenues.

"We're waiting to press the button until the borders are managed. This is a postponement and not a shelving of our plans," Blaabjerg Sorensen, House of Prince Riga's managing director, said.

According to House of Prince Riga, on an annual basis the Latvian state is losing 350 million kroner due to smuggled cigarettes alone. That corresponds to the public sector's annual public health budget or the state deficit last year in the small republic with 2.7 million inhabitants.

The plan in Leo Blaabjerg Sorensen's drawer is an ambitious one. House of Prince Riga very much wants to double its cigarette production from 2.5 to 5 billion per year, but for the time being the drawer is closed.

In 1992 the Scandinavian Tobacco Company, with support from the East European Investment [IO] Fund, established a joint venture with the Latvian state. Together they established the House of Prince Riga company. The Scandinavian Tobacco Company invested $10 million in the factory, which, following extensive restructuring, has 400 people employed in production. But even if the Latvian state is a partner, House of Prince is not satisfied with the politicians in the new democracy.

"Statements from Latvian politicians aren't enough. If they want to have a sound economy, then first and foremost it's a question of attracting foreign investments, and that you do most efficiently by administering those laws you yourself have enacted. Though there are positive signs that Latvian politicians are beginning to understand this is a problem," Blaabjerg Sorensen said.

This spring the Latvian Government borrowed just under 10 million kroner from the European Union [EU]. The funds are earmarked to improve border controls.

Formerly the parliament building housed the hated communist leaders. Now it is democratically elected politicians who sit in the big room with gilt stucco, but all the same the people are about to lose confidence in them.

The opposition is getting good mileage from this mistrust. It is now openly accusing the government of being corrupt, but all the accusations have been rejected. h3}Buy a Politician

Aldis the smuggler confirmed that it was possible to buy politicians:

"Some of the politicians are corrupt. I pay bribes to politicians in parliament—in both the opposition and the government. We put an agreement together and so a number of policy decisions get made that are beneficial to my business dealings," Aldis said.

There are extremes in the Latvian debate over smuggling and organized crime.

In November Oskar Grigs, a member of parliament, warned that the rise in organized crime would lead to a civil war. As soon as criminal groups assume power, citizens in self-defense will organize themselves into organized groups, he argued.

On the other end, they do not deny that organized crime is of disturbing proportions. The number of murders speaks clearly for itself. Since independence in 1991, the number of murders has more than tripled to 375 last year, and the figure per inhabitant is just a little under eight times greater than it is for Denmark.

But the showdowns with gangsters and the smuggling are just a childhood disease that is a natural consequence of the transition to a market economy and free trade, optimists argue.

Regardless of who is right, the porous borders are hampering the development of the new democracy. Interest in investing is low because neither foreign nor legal Latvian firms can compete with smuggled goods at bargain basement prices.

At the same time the state is losing millions in revenues and for that reason wages and pensions are rock-bottom. The old women at the market are trying to manage on 300 kroner's worth of pension per month. That means that consumers have little money in their hands, so the domestic market is a weak one for Latvian industry.

Help Now

The Danish ambassador in Latvia, Michael Morch, believes the situation is so critical that the Latvians should get help from the Danish tax office.

"Soon I want the politicians back home in Denmark to notice how big the needs are here, right around the corner. We could help both the Latvians and ourselves if we channeled more resources here. Denmark ought to intervene much more actively in setting up true border control. It's a matter of education, and it's a matter of cash economic support so customs guards can earn a wage they can live on, so they don't need to be dependent on bribes," Morch said.

Leo Blaabjerg Soren of House of Prince Riga is very willing to support this appeal from the ambassador and is ready to invest $15 million in jobs in Latvia. He has just one requirement: There must be excise stamps on the cigarettes being sold from dilapidated white camping trailers in Riga's market square.

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